# FINANCIAL TIMES

**Technology**
*Why advances often backfire*
**Book review, Page 12**

**Europe's rail freight**
*Tracking systems on the way at last*
**Technology, Page 10**

**Spain**
*Breaking up Franco's industrial legacy*
**Page 2**

**Today's surveys**
*Arts Sponsorship*
*Italy*
**Separate sections**

World Business Newspaper

THURSDAY JULY 4 1996

## $2.2bn bid wins television rights to two World Cups

German media group Kirch and ISL, the Swiss marketing agency, won the biggest football broadcasting contract ever with a successful SFr2.8bn ($2.2bn) bid for the television rights, outside the US, to the 2002 World Cup in Japan and Korea and the 2006 World Cup. It is the first time the European Broadcasting Union, which represents public broadcasters including the BBC of the UK and ARD of Germany, has lost such a big contract. Page 14

**Deutsche Bank introduces Fiona:** Deutsche Bank, Germany's biggest bank, introduced a short-term trading instrument, the Frankfurt interbank overnight average or Fiona, to strengthen the country's financial markets before European monetary union. Page 15

**German industry backs Emu:** The federation of German industry gave its support to European economic and monetary union and the replacement of the D-Mark by the euro, saying the advantages of Emu would outweigh the disadvantages. Page 14

**N Ireland ceasefire hopes:** Northern Ireland secretary Sir Patrick Mayhew said there were "sensible grounds" to expect a renewed IRA ceasefire, raising hopes of a breakthrough in the peace process. Page 8

**Scania,** the Swedish truckmaker, said the west European market for heavy trucks had grown by almost 10 per cent in the first five months of the year, with its own market share rising from 14.5 per cent to 16.2 per cent. Page 16

**Reed Elsevier,** the international information and publishing group, said it was strengthening its legal information business in the US through a partnership with Times Mirror, the US media group which owns the Los Angeles Times. Page 14

**Italy plans culture shake-up:** Italy's culture minister Walter Veltroni promised to usher in a "new cultural springtime" by shaking up the organisation of museums and monuments and improving facilities for sports, cinema, performing and visual arts. Page 2

**Lufthansa profits fall 47%:** German airline Lufthansa announced a 47 per cent fall in profits in the first half from DM189m to DM100m ($65.5m) due to increasing competition and lower prices. Page 16

**Turkish PM in uncontroversial start:** Necmettin Erbakan, emphasised restraint and continuity in his first parliamentary speech as Turkey's new Islamist prime minister, announcing a bland policy programme. Page 2

**New Czech cabinet named:** The Czech Civic Democratic party, headed by prime minister Václav Klaus, will lose some of its control over the cabinet in a new line-up announced today. Page 3

**Japan bank sticks to monetary policy:** The Bank of Japan's announcement that it would keep to its present loose monetary policy was expected to underpin the dollar's recent rise to a 2½-year high against the yen. Page 7

**Israeli minister threatens to quit:**

Israel's foreign minister David Levy (left) threatened to quit Benjamin Netanyahu's cabinet unless the prime minister found a position for former general Ariel Sharon from the rightwing Likud party. The public ultimatum caught Mr Netanyahu off guard as Mr Levy pressed him to make the move before the prime minister's first official visit to the US next week. Page 4

**Indian petrol prices jump:** India has raised the government-controlled prices of petrol by between 25 and 30 per cent, the sharpest rise this decade, citing rising international prices and the need to contain the foreign exchange cost of surging oil imports. Page 7

**Japanese banks lose league positions:** Japanese banks have been knocked off the top of the league tables published by the Banker magazine, for the first time in years, after heavy losses. Page 4

**Pepsi-Cola chief quits:** The chairman and chief executive of Pepsi-Cola, the domestic and international drinks business of PepsiCo, is to quit after less than four months in the job. Page 17

**France bans asbestos:** France announced a ban on asbestos from 1997 after a new study predicted that some 2,000 people would die this year from exposure to the industrial fibre.

**■ STOCK MARKET INDICES**

| | | |
|---|---|---|
| New York lunchtime | | |
| Dow Jones Ind Av | 5,683.44 | (-36.94) |
| NASDAQ Composite | 1,181.95 | (-9.20) |
| Europe and Far East | | |
| CAC40 | 2,113.98 | (+2.18) |
| DAX | 2,568.95 | (-3.30) |
| FT-SE 100 | 3,714.1 | (-11.6) |
| Nikkei | 22,379.92 | (+31.05) |

**■ US LUNCHTIME RATES**

| | |
|---|---|
| Federal Funds | 5⅝% |
| 3-mth Treas Bills: Yld | 5.279% |
| Long Bond | 89½ |
| Yield | 6.948% |

**■ OTHER RATES**

| | | |
|---|---|---|
| UK: 3-mo Interbank | 5¾% | (5⁹⁄₁₆%) |
| UK: 10 yr Gilt | 96⅝ | (97¾) |
| France: 10 yr OAT | 105.17 | (105.22) |
| Germany: 10 yr Bond | 97.88 | (97.93) |
| Japan: 10 yr JGB | 98.2994 | (98.2624) |

**■ NORTH SEA OIL (Argus)**

| | | |
|---|---|---|
| Brent Dated | $19.49 | (19.485) |

**■ GOLD**

| | | |
|---|---|---|
| New York Comex | | |
| Aug | $382.5 | (383.3) |
| London: | | |
| close | $382.2 | (381.75) |

**■ DOLLAR**

| | | |
|---|---|---|
| New York lunchtime | | |
| £ | 1.564 | |
| DM | 1.522 | |
| FFr | 5.145 | |
| SFr | 1.26245 | |
| Y | 110.345 | |
| London: | | |
| £ | 1.559 | (1.5562) |
| DM | 1.5252 | (1.527) |
| FFr | 5.1550 | (5.1525) |
| SFr | 1.255 | (1.2523) |
| Y | 110.57 | (110.14) |

**■ STERLING**

| | | |
|---|---|---|
| DM | 2.3777 | (2.3762) |
| Tokyo close: | Y 110.25 | |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Albania | Lek 220 | Germany | DM4.00 | Lithuania | Lts 15.00 | Qatar | QR13.00 |
| Austria | Sch37 | Greece | Dr400 | Lux | LFr75 | S.Arabia | SR12 |
| Bahrain | Din1.250 | Hong Kong | HK$20 | Malta | Lm0.85 | Singapore | S$4.30 |
| Belgium | BFr75 | Hungary | Ft230 | Morocco | MDh16 | Slovak Rp | Sk85 |
| Cyprus | C£1.20 | Iceland | IKr230 | Neth | Fl 4.75 | S. Africa | R12.00 |
| Czech Rp | Kc60 | India | Rs75 | Nigeria | Naira60 | Spain | Pta250 |
| Denmark | DKr18 | Israel | Shk7.90 | Norway | NKr20.00 | Sweden | SKr20 |
| Egypt | E£5.00 | Italy | L3200 | Oman | OR1.50 | Switz | SFr3.70 |
| Estonia | EKr 22 | Japan | Y500 | Pakistan | Rs40 | Syria | S£65.00 |
| Finland | FM15.50 | Jordan | JD1.50 | Poland | Zl 5.50 | Tunisia | Din1.750 |
| France | FFr12.00 | Kuwait | Fils650 | Portugal (m'land) | Esc240 | Turkey | L90,000 |
| | | Lebanon | LL3000 | | | UAE | Dh12.00 |

Health worries grow as president casts ballot at country sanatorium

# Victory for Yeltsin predicted in early returns from poll

By Quentin Peel, Chrystia Freeland and John Thornhill in Moscow

President Boris Yeltsin was on course for a second term as Russia's head of state last night according to early results in the *decisive final round of the country's* presidential election.

With almost 6 per cent of the vote counted in the far east, Mr Yeltsin had won 50 per cent of the vote compared with 41 per cent for his Communist rival Mr Gennady Zyuganov.

Remaining voters cast ballots against both candidates.

However, nagging concerns about the 65-year-old *president's* health intensified yesterday when Mr Yeltsin failed to arrive at his neighbourhood polling station, choosing instead to cast his ballot at a secluded country sanatorium.

In tightly edited Kremlin television footage, Mr Yeltsin said it was the duty of all Russians to go to the polls, but he spoke haltingly, walked unsteadily and his features seemed slightly distorted.

The president's restricted public appearances have unsettled western observers but it did not seem to deter Russian voters.

Prices of Russian loans traded internationally surged on expectations of a victory for Mr Yeltsin.

After drifting slightly lower earlier in the day the price of dollar-denominated Vneshekonombank *debt rose by more than* 4 per cent, and was quoted in London at 50⅞ cents by early evening.

There was initial concern at indications of a low turnout in Russia's major western cities which might have harmed Mr Yeltsin's chances.

But by the end of the day it became clear that 64 per cent of all registered voters had made it to the polls.

That figure was lower than the 70 per cent turnout in the first round of voting last month, but it did not dip below the 60 per cent threshold which presidential aides said could spell defeat. A low turnout is thought to favour the Communists because their supporters are more disciplined and committed.

When he appeared at a central Moscow polling station to cast his ballot yesterday morning, Mr Zyuganov *said he was still confident* of winning.

"I have voted for a strong and sober Russia which is confident of itself," Mr Zyuganov said, "I expect a victory."

The Communist challenger also drew attention to the issue which was studiously ignored by the Russian mass media yesterday – *mounting worries about* the health of Russia's reclusive president.

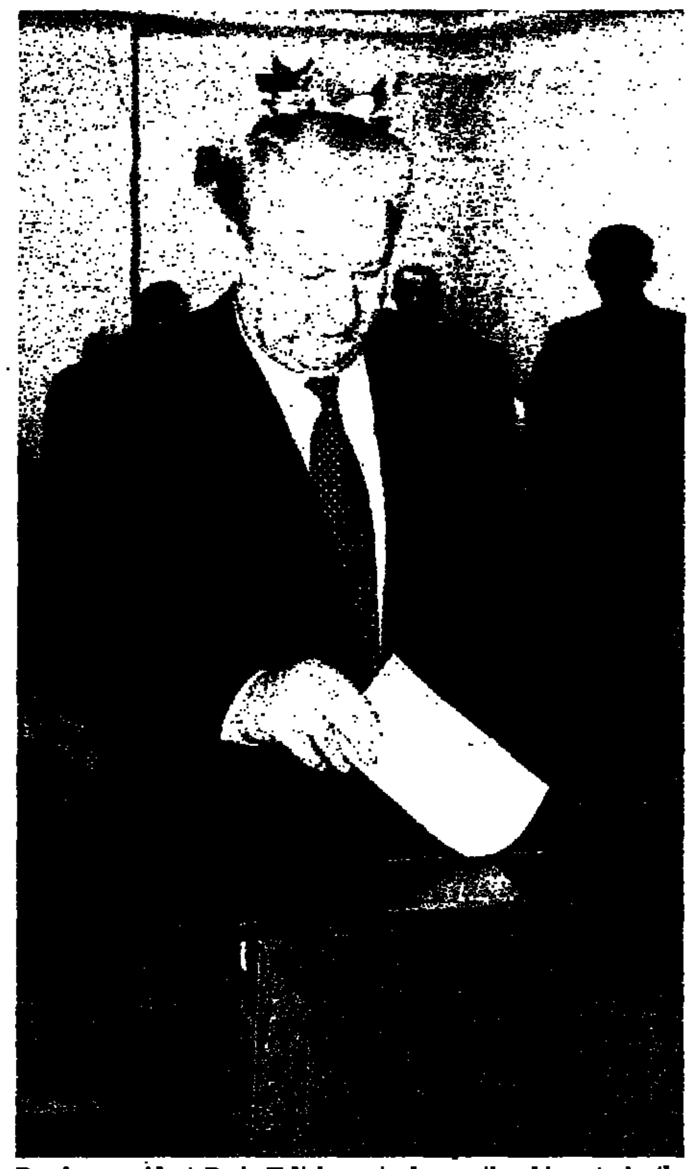
Senior government officials tried to shrug off Mr Yeltsin's failure to appear before independent observers, saying variously that the president was suffering from a cold, bronchitis and a sore throat.

In a light-hearted evocation of the Soviet era, Mr Yeltsin himself explained that he had already exceeded his central planners' targets for meetings with the press.

"I have fulfilled the annual plan for the press by 120 per cent," he said in an officially released film of him casting his ballot.

A significant minority of disaffected voters appeared to have cast their ballots against both candidates, up to 10 per cent in some areas of the far east.

An unpaid worker, Page 2



*Russian president Boris Yeltsin yesterday casting his vote in the village of Barvikha, outside Moscow* Picture: Reuter

## East Asian exports suffer sharp slowdown

By Peter Montagnon in London

Several of east Asia's most dynamic economies have suffered sharp slowdowns in exports this year, raising questions about the stamina of the region's booming growth.

Economists are uncertain whether special circumstances *are responsible*, such as the recent global slump in electronic goods, or if it is a cyclical downturn or a reflection of long-term structural problems.

"It's very striking. It's practically region-wide, but the reasons are a puzzle," said Mr Jim Rohwer, chief Asian economist at CS First Boston in Hong Kong. "All I can surmise is that this is the beginning of quite a slowdown within Asia itself, which eventually is going to slow economic growth."

The most dramatic changes have occurred in China where exports fell 7 per cent during the first five months of the year and in Hong Kong where they were down 8.2 per cent in the first four months.

Elsewhere, exports have continued to expand, but at substantially slower rates.

The value of Thailand's exports rose only 6.2 per cent in the first five months compared with 26.8 per cent in the same period of 1995.

*Indonesia's* export growth rate nearly halved to 10.4 per cent in the first three months. Export growth in Malaysia fell to 18.4 per cent from 23 per cent in the same period.

Most economists believe the slowdown is cyclical rather than a symptom of deeper structural change. Last year's performance was outstandingly good. Several *south-east Asian countries*, including Thailand, Malaysia and Indonesia, are due for a slowdown in their overheated economies.

Many Asian exporters have suffered from low prices for electronic products and semiconductors as demand has weakened in the US and Europe.

"I think electronics is the main problem," said Mr Neil Saker of

Continued on Page 14
Variety of factors, Page 7

# Brussels probe of airlines angers EU states

By Neil Buckley in Brussels and Michael Skapinker in London

*The European Commission* is heading for a clash with EU member states after warning yesterday that it could order changes to transatlantic airline alliances if it found them to be anti-competitive.

The Commission authorised Mr Karel Van Miert, competition commissioner, and Mr Neil Kinnock, transport commissioner, to conduct an unusual joint investigation into the competitive effects of six transatlantic tie-ups – including the "super-alliance" between British Airways and American Airlines.

However, the move prompted immediate criticism from member states and airlines, which believe EU-US airline alliances are for national authorities to decide. Britain's Department of Trade and Industry said the probe raised "important issues" about the Commission's powers.

The investigation, one of the most ambitious launched by the Commission, will be carried out under the little used Article 89 of the Treaty of Rome. This empowers the Commission to examine deals that would normally be handled at national level if they could damage competition within the EU. However, the treaty requires Brussels to work in *co-operation with national* authorities.

Yesterday the two commissioners warned that if they found the alliances anti-competitive they would insist on changes, which could include opening some routes to competitors or giving up airport slots.

"Such alliances in principle strengthen the competitiveness of European airlines, and are important developments," Mr Kinnock said. "But it is important they do not damage competition or consumer interests."

As well as the planned BA/American alliance, the probe will cover agreements between Lufthansa of Germany and United Airlines of the US; KLM of the Netherlands and Northwest Airlines; *Austrian Airlines*, Swissair, Belgium's Sabena and Delta; Scandinavian Airlines System and United; and BA's existing tie-up with USAir. Some alliances date back several years.

Several airlines immediately questioned the Commission's right to examine such deals. Mr Robert Ayling, BA's chief executive, welcomed the fact that his own alliance was not the only one to be probed, but said it would be "very, very difficult" for the commission to make *changes to existing alliances*.

"It is much better that competition issues are left to be dealt with by member governments," he added.

United Airlines and Swissair also doubted the Commission's powers, while KLM strongly defended its four-year-old arrangement as beneficial to the consumer.

Asked why the Commission had waited until now to investigate the sector, Mr Van Miert said the BA/American deal had been an important catalyst. But he had viewed successive alliances with mounting concern.

*"Even if it had not been this* particular proposal, if it had been between some other carriers, the same decision would probably have been taken," he said.

Another reason for launching the inquiry now was the mandate granted by member states to the Commission last month to start talks with the US on transatlantic "open skies" policy. The Commission wanted to go into these negotiations with detailed evidence of the impact of transatlantic deals so far.

British Airways pilots have voted overwhelmingly for strike *action over a proposed pay package*, raising the prospect of the airline's fleet being grounded during the busy summer season.

BA hinted it would bring in new pilots if necessary to main*tain services. Union officials are* likely to hold further talks with BA over the next few days to try to resolve the dispute. Page 8

# Shell nearer to disposing of Brent Spar platform at sea

By Peter Marsh in London

Plans for deep-sea disposal of the Brent Spar oil platform, which raised an international outcry a year ago, have drawn closer following a new analysis by Shell, the structure's owner.

Shell, which abandoned the plan last June in the face of consumer boycotts of its products in many European countries, said its *alternative scheme* of dragging the platform to port and disposing of it on land would be more difficult than originally thought.

The oil company first raised the possibility of reviving the deep-sea disposal last autumn when it launched a consultation exercise to examine options. Yesterday it named 21 international engineering contractors which have until the end of this month to propose on-shore disposal methods.

Greenpeace, the environmental group which led the opposition last year to disposal at sea, said it *remained firmly opposed to this* option on the grounds that "onshore disposal is clearly environmentally more acceptable".

The engineering groups include Taylor Woodrow, AMEC, Brown & Root and McDermott of the UK, the Anglo-French McAlpine Doris, Jan De Nul of Belgium, and AKER and Kvaerner of Norway. Also included are subsidiaries of the Thyssen and Co-Steel steel companies of Germany and Canada which are interested in re-using the metal in the platform.

Shell warned yesterday that a detailed computer analysis of the 15,000-tonne platform by W.S. Atkins, an engineering consultancy, had concluded that raising it safely from the sea would be a *"huge challenge"*.

"It's difficult to put an order of magnitude on it but the problem is bigger than we thought," said Mr Eric Faulds, decommissioning manager at the exploration and production division of Shell UK.

*The analysis highlighted* the thinness of the steel membranes in the platform's huge storage tanks, currently filled with water, as the *150-metre tall* structure awaits its fate in temporary storage in a Norwegian fjord.

If the platform were to be raised from the sea, as opposed to letting it sink to the bottom, the tanks would have to be emptied, with the risk that resulting stress could cause the structure to collapse.

However Mr Mark Priestman, *commercial manager of Mayer* Parry Recycling, a UK division of Co-Steel, and one of the 21 contractors, said he was "very confident" that ideas for lifting the structure to land using techniques borrowed from marine haulage were practicable.

Shell plans to reduce the 21 proposals to a short-list of six by the end of the year. The solution chosen by *Shell* will require UK government approval.



CONTENTS

News
European News 2,3
International News 4
Asia-Pacific News 7
American News 6
World Trade News 3
UK News 8
Weather 14
Lex 14

Features
Leader Page 13
Letters 12
Observer 13
Technology 10
Arts 11
Arts Guide 11
Crossword 22

Companies & Finance
UK 19
International 16-18
Intl. Cap Mkts 20

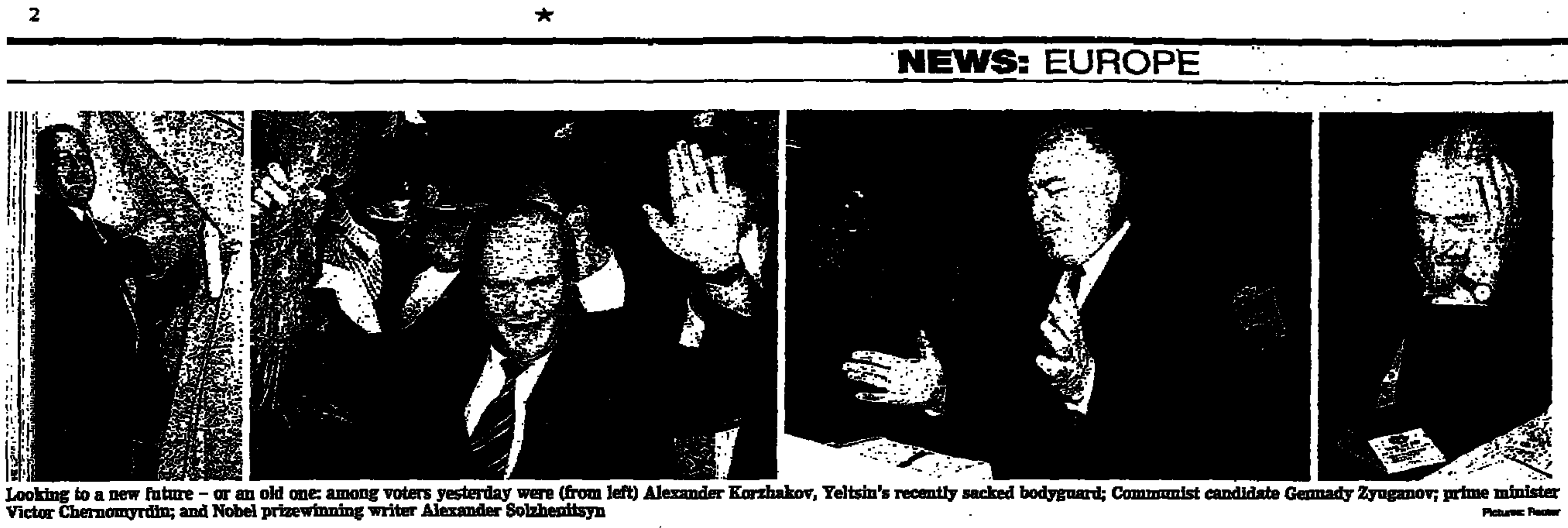
Markets
Commodities 22
FT Actuaries 28
FT/SP-A Wld Indices 32

Foreign Exchanges 21
Gold Markets 22
Int. Bond Service 20
Managed Funds 23-25
Money Markets 21
Recent Issues 32
Share Information 26,27
London SE 28

Wall Street 29-32
Bourses 29,32
Surveys
■ Italy
■ Business Arts Sponsorship (Separate Sections)



LONDON · LEEDS · PARIS · FRANKFURT · STOCKHOLM · MADRID · NEW YORK · LOS ANGELES · TOKYO · HONG KONG



Looking to a new future – or an old one: among voters yesterday were (from left) Alexander Korzhakov, Yeltsin's recently sacked bodyguard; Communist candidate Gennady Zyuganov; prime minister Victor Chernomyrdin; and Nobel prizewinning writer Alexander Solzhenitsyn Pictures: Reuter

# An unpaid worker is a Communist voter

By Quentin Peel in Moscow

Polling station No 2630 in Serpukhov, 80km from Moscow, is in the memorial museum dedicated to local building association veterans and victims of the Great Patriotic War.

A bust of Lenin still glowers down over the two ballot boxes being slowly filled by a steady stream of voters in yesterday's deciding round of Russia's presidential election.

The dusty, yellowing exhibits extol the "life and works of Soviet veterans" who died between 1941 and 1945. A more recent addition features sad portraits of six young men who died in Afghanistan in the 1980s.

On the face of it, the second Russian revolution of recent years appears to have done little to change the old Soviet reality of Serpukhov, a typical grimy industrial town boasting an array of decrepit engineering and textile factories, and a few forlorn churches from another era. Nor does Lenin, as father of the first revolution, need to turn in his grave. The voters here and in a host of other similarly forgotten provincial cities apparently still favour Mr Gennady Zyuganov, the Communist candidate challenging President Boris Yeltsin.

In the first round last month, 823 voters in polling station 2630 opted for Mr Zyuganov, against only 542 for Mr Yeltsin. Yesterday's round looked set to come up with a similar result.

"This district is full of older people, many of them retired. They cannot accept the reforms," says Ms Natalya Sergeyevna, a town hall official and Mr Yeltsin's observer at the poll.

And yet at the other end of town there is a bustling market, positively bulging with fresh food, imported clothes and shoes, pots and pans and household goods, which were unavailable just five years ago.

"I left home too early this morning, and I will be selling till late," says the lady on the soap stall, boasting a dozen different varieties of detergent, mostly made in Russia under licence from western manufacturers.

It is as if there are two worlds apart in Serpukhov, one desperately voting to return to the past, the other spending to join the new one.

"I cannot afford to buy those bananas," says Mr Sergei Anatolyevich, a Zyuganov supporter. "I am an engineer here, but sometimes we are not paid for three months."

Most of the factories in town are on half-shifts or compulsory summer breaks. They relied on state orders under the old central planning system, and they simply cannot sell their produce in the new market economy. Wages have gone unpaid for weeks.

Down at the town hall, where the electoral commission sits, there is nervousness at the low turnout. "We need some agitation," says a harassed official. A car with a loudspeaker and music is despatched to the market square, to remind the new Russians of their duty to vote.

They may succeed, for the young traditionally vote late. But there is no disguising the protest vote going for Mr Zyuganov. "They vote with their stomachs," says Mr Albert Mashkov, a retired army officer in charge of the poll at the local labour exchange. "If they haven't received their wages, they vote Communist."

Serpukhov has spoken.

# German output points to recovery

By Peter Norman in Bonn

German industrial production advanced in May on a seasonally adjusted basis for the third month in succession, prompting hopes the economy is on the way to recovery.

The Bonn economics ministry said May's 1 per cent seasonally adjusted gain in production compared with April reflected a "noticeable expansion" of manufacturing output. This contrasted with April's 1.7 per cent gain compared with March, more narrowly based on a sharp rebound of construction activity after a long, harsh winter.

Using the two-month's figures that normally iron out big erratic movements, there was a 2.5 per cent jump in output in April and May compared with February and March.

Seasonally adjusted construction activity in April and May rose by 16.5 per cent compared with the two preceding months against a 1.5 per cent gain in manufacturing output in the period. Improved weather and the greater weight of the construction sector in the eastern German economy caused a 14 per cent jump in industrial production in the new Länder in the two months compared with 1.5 per cent gain in the west.

Mr Richard Reid, Frankfurt-based chief European economist of UBS, the Swiss bank, said yesterday's figures suggested the economy "bottomed at the turn of the year and is now on the road to recovery." Mr Reid said there was a prospect of good growth in second quarter gross domestic product, following a 0.5 per cent fall in the first quarter. He warned domestic economic growth would remain subdued as long as there was no improvement in private sector confidence.

The May industrial production figures are part of growing evidence of recovery. Handelsblatt, the German economic newspaper, yesterday said its leading indicator of GDP trends had moved up slightly this month for the first time since April last year.

THE FINANCIAL TIMES
Published by The Financial Times (Europe) GmbH, Nibelungenplatz 3, 60318 Frankfurt am Main, Germany. Telephone ++49 69 156 850. Fax ++49 69 596 4481. Represented in Frankfurt by J. Walter Brand, Wilhelm J. Brüssel, Colin A. Kennard as Geschäftsführer and in London by David C.M. Bell, Chairman, and Alan C. Miller, Deputy Chairman. Shareholders of the Financial Times (Europe) GmbH are: The Financial Times (Europe) Ltd. London and F.T. (Germany Advertising) Ltd. London. Shareholder of the above mentioned two companies is: The Financial Times Limited, Number One Southwark Bridge, London SE1 9HL.
GERMANY:
Responsible for Advertising: Colin A. Kennard. Printer: Hürriyet International Verlagsgesellschaft mbH, Admiral-Rosendahl-Strasse 3a, 63263 Neu Isenburg ISSN 0174 7363. Responsible Editor: Richard Lambert, c/o The Financial Times Limited, Number One Southwark Bridge, London SE1 9HL.
FRANCE:
Publishing Director: P. Maraviglia, 42 Rue La Boétie, 75008 PARIS. Telephone (01) 5376 8254, Fax (01) 5376 8253. Printer: S.A. Nord Eclair, 15/21 Rue de Caire, F-59100 Roubaix Cedex 1. Editor: Richard Lambert. ISSN 1148-2753. Commission Paritaire No 67808D.
SWEDEN:
Responsible Publisher: Hugh Carnegy 468 618 6088. Printer: AB Kvällstidningen Expressen, PO Box 6007, S-550 06, Jönköping.

Editor: Richard Lambert, c/o The Financial Times Limited, Number One Southwark Bridge, London SE1 9HL.
R

# Turkey's Islamist PM plays a cautious hand

By John Barham in Ankara

Mr Necmettin Erbakan, Turkey's new Islamist prime minister, emphasised restraint and continuity yesterday in his first speech in parliament since taking office at the weekend. He read out a bland, uncontroversial government policy programme which mentioned few specifics.

Like all Turkey's recent incoming prime ministers, he said his principal targets would be to deal with "terrorism, rural migration, unemployment, poverty and to increase prosperity". His aim would be to "bring peace, hope and trust for all our citizens."

Mr Erbakan, 68, shed his incendiary rhetoric and populism on coming to power at the weekend as leader of a coalition between his Refah party and the conservative True Path party of Mrs Tansu Ciller, which controls the foreign, interior and defence ministries and the economic portfolios.

Mr Erbakan said the main target of his economic programme would be to "fight inflation". He promised "a balanced budget, monetary discipline and stable exchange rate". He made no mention of the drastic policies needed to achieve this. The forecast 1996 budget deficit is about $10.0bn, or 7 per cent of GDP, and about one-third more than in 1995, while inflation is 83 per cent.

Mr Erbakan said he planned to accelerate the stalled privatisation programme, a promise few expect him to keep. The state still controls over half the economy, despite a 10-year privatisation policy.

On domestic policy he repeated previous governments' insistence on pursuing a military, rather than a political solution, to the 12-year Kurdish revolt: "Foreign-based separatist terrorism still threatens internal security. We will continue fighting terrorism decisively both in Turkey and abroad." However emergency rule in the mainly Kurdish south-east would be lifted.

An early test of the government's commitment to economic austerity comes in 10 days when Turkey's 2m-odd civil servants are to receive their bi-annual pay increase. An over-generous rise would worsen the deficit and cast doubt over the commitment to stabilisation.

Parliament will debate the government's programme this week and is expected to hold a confidence vote on Monday. Uncertainty over the government's future continues. Turkish newspapers reported yesterday that Refah and True Path can only count on 254 MPs – 20 short of a majority. The opposition, strengthened by about 20 True Path defectors, has about 273 MPs. Allowing for MPs sick or unable to vote, the government needs to win over all 21 undecided MPs to win a majority of 274.

Yesterday the Islamist-nationalist Grand Unity party said its seven MPs would support the government in exchange for a cabinet seat.

The first opinion poll published since Mr Erbakan took office reveals deep public hostility towards his government. Two-thirds oppose the Refah-True Path coalition and want fresh elections. Refah remains Turkey's most popular party with 19 per cent support, but it has lost ground since it took one-third of the vote in local elections in June.

# Italy promises a culture shake-up

By Andrew Hill in Milan

Mr Walter Veltroni, Italy's culture minister, yesterday promised to usher in "a new cultural springtime" by shaking up museums and monuments and improving facilities for the sports, cinema, performing and visual arts.

In a speech to an Italian parliamentary committee, Mr Veltroni, who is also deputy prime minister and a former communist, said he was aiming to make museums and galleries easier to use and to encourage a partnership between the public and private sectors.

His speech is well-timed, coming just as Italy prepares to welcome the annual flood of summer tourists, many of whom leave frustrated by red tape and poor management of the main artistic sites.

In an interview yesterday in Corriere della Sera, the Italian daily, Mr Veltroni explained he wanted to avoid transforming the country into a "Renaissance Disneyland" but there was scope to make much more of Italy's cultural heritage.

Mr Veltroni told deputies he would like to encourage more cultural tourism, and was considering the possibility of taking on unemployed academics and teachers as part of educational initiatives in museums and at historic sites. He said he wanted to give more commercial autonomy to the best known museums and galleries – such as the Uffizi in Florence and the Brera gallery in Milan – and archaeological sites.

"There is only one [museum] bookshop, at Rome's national gallery of modern art. Elsewhere, nothing," said Mr Veltroni in yesterday's interview. "At Pompeii, which has 2m visitors, there isn't even the smallest shop."

Earlier attempts to reform the management of Italian cultural sites and museums have managed to extend opening hours – ending the experience of tourists locked out of major galleries during the traditional Italian holidays in August. The number of visitors to museums has increased strongly over the last two years but efforts to go further have foundered.

Mr Veltroni said he hoped to finance improvements in the cultural field through fiscal incentives, European funding and better use of a special tax fund for cultural affairs.

## Sell-off plans involve $23bn worth in four years, writes **David White**

# Spanish public sector up for sale

A hotchpotch – irrational, confused and disordered. That is how Mr Josep Piqué sees Spain's nationalised companies, and he should know. Plucked at the age of 41 from the private sector to become minister of industry, he is in charge of most of them.

The new Popular party administration, which Mr Piqué has joined as an independent, has drawn up a strategy for getting rid of as many state holdings as it can or thinks wise.

Under the euphemistic title of "Modernisation plan for the public enterprise sector", this is the latest in a series of economic packages announced since early last month, all meant to convey the message that the government, after initial delays, is intent on getting quickly down to business – curbing spending, prodding private investment and liberalising the economy.

Privatisation plans involve shareholdings worth an estimated Pta3,000bn ($23bn), up for disposal over the next four years if the government completes its term. It is the nearest Spain has come to having a comprehensive approach to nationalised industry and services. In contrast with the Socialist government, says Mr Piqué, who was chairman of a chemical business in Barcelona, "we'll explain what we propose to do with our public sector".

Included are plans for reducing losses at companies which the government reckons cannot be privatised before the next elections, or which it wants to keep anyway – in the defence industry, for instance. The only conspicuous omissions from the programme are the railways and state broadcasting: the government has yet to make up its mind where they fit in its plans.

Spain's nationalised sector, founded in a spirit of protectionism, was built up from the 1920s and reinforced in the early period of the Franco regime, emulating Italy. The state was the driving force behind big modern industries such as oil, telephones, motor vehicles and air transport. From the mid-1960s the state sector also served as a hospital – or resting-home – for industrial companies in crisis.

The Socialist government began privatising on a piecemeal basis more than 10 years ago, pumping money into companies to prepare them for disposal, such as the carmaker Seat, sold to Volkswagen. This process accelerated from 1988 with stock market offerings.

Since then, by Mr Piqué's reckoning, sales have amounted to the equivalent of Pta1,700bn at today's prices. Disposals included stakes in the government sector's "crown jewels" – Endesa in electricity, Repsol in oil, Telefónica in telecommunications, Argentaria in banking, Tabacalera in cigarettes.

The new administration's plans focus first on selling the remaining state shareholdings in these listed companies. Ministers have a timetable for the programme, but have so far kept it to themselves. "It won't be aggressive, massive or rushed," says Mr Piqué. The government reckons it has to compete with some $85bn of privatisation plans elsewhere in Europe by the end of next year.

It envisages placing up to Pta900bn worth on the markets in that period. Further privatisation of Endesa, now two-thirds state-owned, is set to be undertaken in stages, and not until new ground rules have been worked out for the electricity industry to increase competition among generators and distributors with the aim of moving away from the current system of fixed prices.

Mr Piqué says the government may use existing legislation to retain a measure of state control in some cases, but only temporarily. "Core" shareholdings already built up by Spanish banks in companies such as Telefónica, Endesa and Repsol are seen as providing some guarantee against loss of Spanish control. But Mr Piqué says the government will give no special treatment for the formation of "core" groups.

Preparatory steps are to be undertaken at the same time for a second wave of privatisations, including Iberia, the flag-carrier airline. The government is looking first for a "strategic ally" to take a shareholding in the company, with a possible stock market flotation within three years.

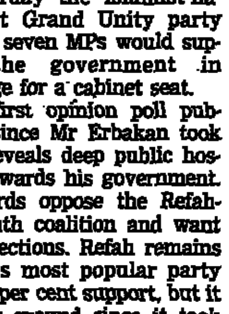
As part of a more orderly approach, it is setting up a consultative committee on privatisation and standardising the structure through which its holdings are controlled – still complex, however, because of the involvement of different ministries.

Subsidised companies, including coalmines, shipyards and arms factories, are set to cost the government at least Pta1,000bn this year – a "biblical curse", says Mr Piqué. But the restructured state steel industry could be a privatisation candidate, and the shipyards are supposed to emerge from losses in 1998. "We'll see what happens," says Mr Piqué cautiously.

He says the government has no plans to close any of its companies down "for the moment". But, after pitched battles over shipbuilding jobs last year and more cuts looming in other industries, unions are preparing to take up an "active defence" of their public sector strongholds.

**Spain's privatisation candidates**

| Ready to go | State share |
|---|---|
| Telefónica (telecommunications) | 21% |
| Repsol (oil and chemicals) | 10% |
| Argentaria (banking) | 25% |
| Tabacalera (tobacco) | 52% |
| Gas Natural (gas) | 4% |
| Transmediterránea (ferries) | 95% |
| Aldeasa (duty free) | 80% |
| Auxini (building) | 60% |
| **Awaiting deregulation measures** | |
| Endesa (electricity) | 67% |
| **Due by 2000** | |
| Iberia (airline) | 99.8% |
| Aviaco (airline) | 99.9% |
| Inespal (aluminium) | 99% |
| Indra Sistemas (electronics) | 63% |
| CASA (aerospace) | 99% |
| Ence (paper pulp) | 51% |
| Babcock & Wilcox Española (capital goods) | 100% |
| Musini (insurance) | 100% |



Josep Piqué, industry minister: the government may use existing legislation to retain a measure of state control in some cases, but only temporarily.

Mr Feliciano Fuster, the 71-year-old Majorcan who heads Spain's dominant electricity generator Endesa, is a rare animal – a chairman of a big state company who has survived the change of government, writes David White. Elsewhere, including companies in which the state is now a minority shareholder, the new administration has swept the board.

Some knew they had no chance of staying. Mr Pedro Pérez, outgoing chairman of Tabacalera, the state-controlled tobacco group, had been appointed to the job by the Socialist government after serving as state secretary for the economy. In came Mr Cesáreo Alierta, founder of a successful stockbroking company.

Another stockbroker, Mr Francisco González, has been put in charge of Argentaria in the place of Mr Francisco Luzón, who formed the group five years ago through a merger of state banks.

Mr Cándido Velázquez, a Socialist party member who had run Telefónica since 1989, had to make way for Mr Juan Villalonga, a merchant banker. The new chairman, who was head of Bankers Trust's Madrid office, is a boyhood friend of Mr José María Aznar, prime minister.

The biggest surprise was the ousting of Mr Oscar Fanjul, who built up Repsol into an international and largely privatised oil, chemicals and gas group. He had to stand down to make way for Mr Alfonso Cortina, previously in the cement business and a friend of Mr Rodrigo Rato, economy and finance minister.

Before the elections Mr Rato was against a purge: "The situation we are going to inherit is so complex that we cannot afford to waste even an ounce of talent," he said then.

EUROPEAN NEWS DIGEST

# Moslem-Croat army discussed

Mr William Perry, the US defence secretary, held talks in Sarajevo yesterday as part of efforts to get the Bosnian Croat-Moslem federation to agree on a joint army, releasing millions of dollars for an international "equip and train" programme. Mr Perry met the Bosnian president, Mr Alija Izetbegovic, a Moslem, and the federation's president, Mr Kresimir Zubak, a Croat.

However, Mr Zubak said there were still serious disagreements over ultimate command of the army. The US has promised more than $100m worth of weapons to the new force, including 45 M-60 tanks and 15 helicopters.

Western observers say slow progress on the joint army underlines the fragility of the Moslem-Croat federation, which underpins the Dayton peace agreement.

Mr Perry was also asked if the Bosnian Serb leader, Mr Radovan Karadzic, would be arrested. Mr Perry said he was "getting pretty sick" of criticisms of the Nato-led force in Bosnia for what it was failing to do, when it had succeeded in bringing peace to Bosnia. *Paul Wood, Sarajevo*

## France announces asbestos ban

France, acting long after most other industrialised nations, yesterday announced a ban on asbestos from 1997 after a new study forecast that some 2,000 people would die this year from exposure to the industrial fibre.

"The manufacture, import and sale of products containing asbestos – and particularly asbestos cement – are banned," said Mr Jacques Barrot, labour minister.

Environmentalists and labour groups welcomed the step even as they criticised Paris for failing to act earlier. But industry officials said the ban would devastate 14 companies with 3,000 employees. France now imports 35,000 tonnes of asbestos a year, virtually all of it for the manufacture of asbestos cement, a fire-proof material used widely in French construction. Numerous industrialised nations have banned asbestos, linked by scientists to lung cancers and other lethal respiratory ailments decades ago. Seven European nations including Germany, Italy and Holland have imposed bans, while Britain and Japan, among others, have taken action short of a ban. *Reuter, Paris*

## Poles face action over Kurd TV

The Polish posts and telecommunications service (PTT) could face legal action from a London-based Kurdish broadcasting company claiming breach of contract under political pressure from Turkey.

Mr Paul Chinnery, solicitor for Med-TV, said in London yesterday he was advising his clients they had a good case against the Polish company, and could involve the Turkish government as conspirators if they could be shown to be involved.

Med-TV, which has been beaming multi-lingual programmes internationally since May last year, said it had signed a new transmission contract with the Polish broadcaster commencing July 2, but on Monday, Mr Chinnery claims, "The contract was vetoed by the Polish government responding to Turkish government pressure". As a result, according to a Med-TV director, Mr Hikmet Tabak, the station has been unable since Tuesday to broadcast on its usual frequency. The Turkish government has lobbied other European countries, notably the UK and Belgium, where Med-TV has its offices, to try to get the station closed down. *Edward Mortimer, London*

## Olivetti unions nearer to strike

Unions at Olivetti yesterday stepped up their protest at the Italian computer group's alleged mishandling of changes in corporate strategy and management. The unions declared a "state of agitation" which could be a prelude to a strike.

Union leaders were upset by last week's announcement that Mr Corrado Passera, Olivetti's chief executive, was about to step down. It came only shortly after he had reassured them he would continue to guide the recovery plan. Olivetti employees had already agreed to further job cuts as part of the latest attempt to restore profitability.

Shares in Olivetti rose sharply, however, as investors looked forward to the prospect of wide-ranging management changes. Today, Olivetti is due to name a new chief executive, probably Mr Francesco Caio, chief executive of Omnitel Pronto Italia, the mobile phone company in which Olivetti has a 41 per cent stake. Mr Carlo De Benedetti, whose family holding companies control Olivetti, may also give up the title joint chief executive while remaining executive chairman. *Andrew Hill, Milan*

## Norway to destroy 30,000 sheep

Norwegian farmers have agreed to destroy 30,000 sheep in a drive to wipe out scrapie, a disease linked to mad cow disease, Norway's ministry of agriculture said yesterday.

Scrapie, which kills sheep and goats by infecting their brains, is blamed for the spread of mad cow disease because byproducts from infected sheep were used in cattle fodder.

Mr Gunnar Hagen of the agriculture ministry said 17 flocks in western Norway's Rogaland and Hordeland provinces had already been destroyed after scrapie was discovered. He said the National Farmers' Association accepted a plan to slaughter about 600 herds over two years, encouraged by state grants of NKr1,000 ($154) per animal. Mad cow disease has never been reported in Norway. *AP, Oslo*

## Baltic Sea states agree new pact

The Council of Baltic Sea States yesterday announced an action programme outlining co-operation in the region until the year 2000, including investment programmes totalling SKr40bn ($6.06bn) over the next five years.

Among the measures proposed by the foreign ministers of the 11 Baltic Sea states are strengthened co-operation between the national rescue services, police, coastguard, customs and border controls to fight organised crime. The second section of the action programme is geared towards boosting economic integration. A number of investment projects, including road and railway maintenance and harbour developments have been drawn up. *AFP, Kalmar, Sweden*

ECONOMIC WATCH

## EU states' GDP rises by 2.4%


The 15 member states of the European Union registered a combined annual GDP growth of 2.4 per cent last year, down from 2.8 per cent annual growth in 1994, Eurostat, the EU's statistical office, reported yesterday. In comparison, the US recorded a greater slowdown, falling from 3.5 per cent in 1994 to 2.1 per cent in 1995, and Japan experienced a slight increase from 0.5 per cent in 1994 to 0.9 per cent in 1995. For the second consecutive year, Ireland registered the largest annual GDP increase in the EU, at 8.6 per cent, followed by Finland with 4.2 per cent and Luxembourg at 3.2 per cent. Austria experienced the lowest growth rate in 1995 at 1.8 per cent, while Denmark suffered the biggest fall, from 4.4 per cent in 1994 to 2.6 per cent last year, but remained above the EU average.

Germany, France, Italy and Britain accounted for 72 per cent of the EU's total GDP, while Greece, Ireland, Luxembourg, Portugal and Finland contributed only 4.5 per cent.

In 1995, total European Union GDP amounted to Ecu6,438.6bn ($7,919bn). *Marco Vicenzino, London*

# Brussels to rule soon on Ciba-Sandoz deal

By Neil Buckley in Brussels and Daniel Green in London

The European Commission is "discussing remedies" to competition concerns connected with the planned merger of Swiss drugs groups Ciba-Geigy and Sandoz, Mr Karel Van Miert, competition commissioner, said yesterday.

But although his comments suggest the merger to form Novartis, the world's second-largest drugs group, will only proceed subject to certain conditions, industry observers believe any measures demanded by the European Commission are unlikely to affect Novartis's core area of healthcare.

Mr Van Miert refused to specify what remedies were being discussed. Concerns are thought to centre, however, on the new company's dominant position in the crop protection market. It has more than 50 per cent of the market for products to protect crops from weeds, insects and moulds.

When the Commission took its merger probe into a second, four-month stage in May, it also warned that the merged company would have a strong position in certain pharmaceuticals markets – particularly in blood pressure and osteoporosis treatments – and animal health products. Those concerns are now thought to have been put aside. Mr Van Miert said the Commission would attempt to decide on the case by the end of this month but a decision might not be possible before the August recess. The deadline for a ruling is September 10.

Among other competition cases under scrutiny, the commissioner warned he was still concerned about a joint control agreement signed last year by three shareholders in Banque Bruxelles Lambert, Belgium's fourth biggest bank. He wrote last month to the shareholders, Groupe Bruxelles Lambert, Royale Belge and Crédit Communal, which jointly hold 37.25 per cent of BBL, demanding changes in the agreement.

Mr Van Miert said the companies had rebuffed his concerns, and the matter would now be investigated further by competition officials.

He confirmed the Commission would examine the French authorities' rescue plan for Crédit Foncier, the struggling property lender, to ensure it did not involve illegal state aid. But he criticised the French government for not supplying the information demanded by the Commission on its restructuring plan for Crédit Lyonnais, the state-owned bank.

The Commission approved a state aid package for the bank on condition it was kept informed on progress.

Mr Van Miert welcomed the decision by Visa, the credit card operator, to drop plans to prevent its European member banks from issuing rival cards after the commissioner warned last month he would "not accept" such a move.

He warned he would take the same attitude to any similar move by rival card group, MasterCard, which like Visa has moved to stop US member banks from offering competing cards.

## Arthuis wields his ministerial axe to coax same response from colleagues

# French minister gives job cuts lesson

By David Buchan in Paris

The French finance ministry yesterday confirmed that some 1,200 posts would be abolished by the end of this year, in a move by Mr Jean Arthuis, the finance minister, to embolden his cabinet colleagues to make similar job cuts and so help reduce the country's public deficits.

Mr Arthuis told unions that his ministry needed "to show an example" to others and that he planned not to replace 1,200 of those retiring this year. This only amounts to 0.7 per cent of the finance ministry's 185,000 civil servants.

But this is the first time any minister had dared put a precise figure on any civil service cuts since Mr Alain Juppé, prime minister, drew opposition and union anger by warning in May that France's bloated civil service needed its "excess fat" trimmed. Unions at the finance ministry called a one-day warning strike last week, which was backed by about 20 per cent of the staff.

Mr Arthuis recently cancelled an expensive project to rehouse some finance ministry workers outside Paris. He believes savings can be made in such services as customs, whose number has grown despite the 1993 removal of customs checks within the EU, and in education, where the number of teachers keeps rising although demographic changes mean there are fewer children in school. The education and culture ministers have appealed to Mr Juppé against the efforts of Mr Arthuis and Mr Alain Lamassoure, the budget minister, to cut their budgets and civil service numbers. But in the final "arbitrage" on the 1997 draft budget, expected this month, Mr Juppé is considered likely to side with the ministers.

> The finance minister believes more jobs can go in customs and education

However, the finance ministry yesterday denied that the percentage of retiring civil servants who would not be replaced this year would go as high as 60 per cent.

It admitted it had sent out a circular in April, asking ministries temporarily to "freeze" 60 per cent of new vacancies, but officials claimed this was standard proceedure to retain flexibility in hiring.

A recent wave of announced job reductions by state-owned defence companies and banks has increased doubts that unemployment will fall in the near future.

A parliamentary study published today is expected to criticise the inefficiency of job subsidies. Ironically, France's Unedic unemployment insurance fund is in hefty surplus, because of reforms made in 1993 by the employers and unions who co-manage it.

Unedic is due today to give its latest estimate of its 1996 surplus, predicted to be in the range of FFr10bn ($1.92bn) to FFr12bn. The government would like to see some of this money switched to "active" job creation measures, but some unions insist it should be used to increase dole benefits for the unemployed.

Arthuis: plans not to replace 1,200 of his retiring civil servants

## Commission accused of neglect after fishing quota is halved

# Dutch attack Brussels on herring

By Gordon Cramb in Amsterdam

The Dutch fishing industry, the European Union's biggest harvester of herring, yesterday criticised Brussels for inadequate controls, poor research and a lack of consultation in its emergency halving of the year's permitted herring catch announced this week.

Produktschap Vis, the national industry association, forecast a big shortage of rollmops and smoked herring products in the shops. Lifting of duties on herring imports from outside the EU, a move intended to ease the burden on the onshore fish processors, was unlikely to make up the shortfall, it added.

The measures were put in place on Tuesday by Mrs Emma Bonino, fisheries commissioner, after consultations with Norway, a non-EU member with which Brussels jointly manages herring stocks in the North Sea and environs. They are aimed at rebuilding the depleted numbers of the breed.

Mr Jozias van Aartsen, the Dutch fisheries minister, will start talks with the industry this week about possible compensation. He also suggested that herring boats, which are otherwise likely to be idle within two months, should go in search of other types of fish.

British fishermen are today to meet Mrs Bonino to air their concerns. Mr Giles Chichester, a Conservative member of the European parliament for Devon and East Plymouth, said: "The danger now is that North Sea herring vessels start to focus on the mackerel fisheries off Cornwall." At the same time, the Dutch association attacked in particular Scottish vessels for alleged evasion of previous quotas.

> 'The danger now is that herring vessels start to focus on mackerel'

"The overfishing problem largely stemmed, however, from herring caught in the nets of trawlers seeking sprats for fishmeal.

It said this "by-catch" consumed more than 100,000 tonnes a year of the young herring a year the Dutch treat as a delicacy and eat raw. The amount is equivalent to three-and-a-half times the entire new quota for the Netherlands.

The European Commission is acting against the industrial fleets operated mainly by Denmark, but the Dutch industry questioned its policing ability. "Limits are acceptable only if the causes of the problem are treated," it said. Brussels had cut funding for research into fish stocks and it was "sad the Commission had no communication with the industry" before imposing the quota curbs.

EU fisheries inspectors are next week expected to visit the Netherlands, Denmark and Scotland to seek ways of tightening quota controls. Industrial vessels, however, do not sort the fish, making the task more difficult.

# Czech cabinet list finalised

By Vincent Boland in Prague

The new Czech cabinet, which will be announced today, will dilute the control of Prime Minister Václav Klaus's Civic Democratic party (ODS) but will strengthen its grip over the key ministries of finance and foreign affairs.

Mr Klaus reluctantly surrendered the large majority he enjoyed in the old 19-member cabinet to secure a coalition agreement. The ODS will have eight of the 16 posts in the new cabinet expected to be approved today by President Václav Havel.

Its allies, the Christian Democrats (KDU) and the Civic Democratic Alliance (ODA), will hold four each. The junior partners won a combined 14 per cent share of the vote in last month's general election, compared to 29 per cent for the ODS.

Creation of a new ministry for regional development is another climbdown. This ministry will implement a new tier of local government likely to be introduced by the new government. Mr Klaus, a centraliser, has long opposed such a move, but coalition politics have now dictated otherwise.

The new ministry, to include responsibility for housing, is a potential big-spending department and a notable victory for the KDU. It will be run by a newcomer to the cabinet, Mr Jaromir Schneider, a former mayor of the town of Zlin in Moravia, a KDU stronghold.

The precise form of future local government has yet to be defined. A key issue is whether it will let regions levy local taxes, which would be a big step towards decentralisation and a diminution of the *Prague-centrism* that provincial officials bemoan.

But if the ODS has lost on the swings it has gained on the roundabouts. The Finance Ministry, already a big bureaucracy, is expanding to include responsibility for the National Property Fund, the state holding company that retains stakes in a swathe of industry and was answerable to the disbanded Privatisation Ministry.

Mr Ivan Kočárník, an ally of Mr Klaus, retains the finance portfolio, assuming responsibility for much future privatisation, most crucially that of the banking sector. The change at the NPF, formerly an ODA stronghold, should reduce the potential for political infighting over privatisation.

However, future policy on selling more state assets is unclear. There is no immediate pressure to privatise further, and the changed political landscape "will make it more difficult to find a way forward" in this area, said Mr Martin Kupka of the investment bank Patria Finance.

The ODS's wider influence over foreign policy is also at the expense of the ODA. The latter sought to win control of the Czech drive to join the European Union but this was firmly rejected by Mr Josef Zieleniec, a powerful ODS figure who remains foreign minister and is a moderate Euro-enthusiast.

Mr Pavel Bratinka, a former deputy foreign minister who is a noted Europhile, badly wanted responsibility for Europe but had to settle for the relatively minor position of minister without portfolio.

The coalition is now turning its agreement into a policy programme which Mr Klaus said he expects to bring before parliament by July 17.



WORLD TRADE NEWS DIGEST

# EU asked to join chip talks

European Union hopes of inclusion in any new semi-conductor agreement between Japan and the US have received a boost with an invitation for European Commission negotiators to visit Tokyo next Monday before Japan resumes talks with the US. Mr Peter Carl, the EU's chief semiconductor negotiator, will meet Japanese officials for talks aimed at "narrowing and if possible eliminating any remaining divergences" between the EU and Japanese approaches to future international co-operation on market access in semi-conductors, the Commission said.

The existing US-Japan agreement expires at the end of this month and must be renegotiated, but both Japan and the EU support a "trilateral" or "multilateral" approach to future arrangements for semi-conductors. The invitation to Toyko follows progress made during talks between the Commission and Japan at last week's G7 summit. *Neil Buckley, Brussels*

## Swiss to buy tilting trains

The Swiss State Railways have placed a SFr500m ($394m) contract for 24 tilting-trains with a Swiss consortium led by ABB Daimler Benz Transportation (Schweiz), known as Adtranz. The main feature of the trains is a new type of electronic tilting system which allows the trains to travel 30 per cent faster around bends.

Swiss Railways estimates that the new system will save it SFr500m which would otherwise have been needed to upgrade the track. The 190m long trains will carry 470 passengers at speeds of up to 200kph. The trains will go into service in the year 2001 and will operate between the Swiss towns of St Gallen and Geneva. Adtranz will supply the electrical equipment and air conditioning systems together with ABB Switzerland. Schindler Waggon will manufacture the car bodies and Fiat-SIG will produce the electro-mechanical tilting system and bogies. *William Hall, Zurich*

## Kvaerner wins pulp plant order

Kvaerner, the Norwegian engineering and ship building group, has won a $150m order to provide a complete fibre line and recovery plant for a pulp and paper mill at Prachinburi, east of Bangkok. The contract has been awarded by Advance Agro, a leading Thai paper producer and part of the Soon Hua group. The new line due for delivery in 17 months will have the capacity to to produce 800 tonnes of bleached pulp daily using wood from eucalyptus plantations. *Andrew Taylor, London*

## Costain to build Gulf bank HQ

Costain, the UK construction group, has won a £20.3m contract to build a 25-storey headquarters for the National Bank of Bahrain. In a separate deal, Costain has been awarded a £15.5m contract to build a a shopping Mall and covered street for the Sentul Raya Square project in Kuala Lumpur, Malaysia. *Andrew Taylor*

■ A German consortium of RWE Energie and EVS yesterday presented plans to the Hungarian government for a 250bn forint power plant at Bukkabrany which will be the biggest single investment in Hungary's energy sector so far. RWE's president, Mr Richard Klein, said the investment would create 900 jobs. The Hungarian government is expected to respond to the study within six months. *Reuter, Budapest*

■ Holzmann, Wayss and Freitag, the German construction group, has won a DM260m ($169m) contract to build two 6.5km tunnels in Holland. It will be the second-biggest underwater tunnel project in Europe. *Reuter, Frankfurt*

# Thais told to drop US car parts link

By Ted Bardacke in Bangkok

CP Group, Thailand's largest industrial conglomerate, has ended its $30m vehicle parts joint venture with Ford of the US, saying the link was "not proper" while CP was involved in a similar venture with one of Ford's Japanese competitors.

The split, which both sides described as amicable, is the first indication of a battle among components manufacturers and suppliers in Thailand, where Japanese vehicle manufacturers are understood to be pressing their local autoparts affiliates not to supply Ford and General Motors, which have recently announced $1.2bn in new investments in Thailand.

The autoparts division of CP Group, the largest single foreign investor in China, already has a joint venture with a Japanese supplier of speedometers and other plastic parts to Honda, which uses Thailand as a manufacturing base for its recently launched "Asian Car". CP Group's joint venture with Ford, announced just last April, was to have manufactured plastic and electronic car components.

Ford said it had no problem doing business with CP Group despite the Thai company's other ventures with Japanese autoparts makers, but that apparently CP Group was made to feel "uncomfortable" about the venture with Ford.

"Ninety per cent of autoparts suppliers in Thailand have technical agreements with the Japanese, and with the arrival of the Americans all of a sudden this becomes a very high-stakes game," said Mr Michael Dunne, President of the Bangkok-based consulting company Automotive Resources Asia. "The Japanese are likely to build something in to those agreements to keep the Americans out."

Both Ford and GM have countered this argument by saying their own affiliated parts suppliers see an opportunity to supply Japanese manufacturers in Thailand, which control about 90 per cent of the booming Thai vehicle market, the largest in south-east Asia. In addition, Ford is setting up its Thai manufacturing through a joint venture with Mazda, which already has several autoparts relationships in Thailand.

"We think that Japanese suppliers have not had to be as disciplined as ours because they always have assumed they will get the contracts through historic links," said one US executive. "We think if we are evaluated on the basis of price, quality and stability of supply we can get some of those contracts."

Ford said the plastics and electronics investment would still go ahead, with Ford taking a 100 per cent stake in the project. CP Group was originally to take a 30 per cent stake in the venture. Both companies said CP Group's decision would not affect discussions about a proposed autoparts joint-venture in China.

# Gulf gas deal comes naturally

**Robin Allen** on the beginnings of cross-border energy development

The Dubai government is understood to be in the advanced stages of negotiations with two of its gas-rich neighbours, Abu Dhabi and Qatar, to buy up to 1bn cubic feet a day of natural gas.

Such a deal would be the first in a region where historical suspicions between Gulf rulers have hindered cross-border energy development. Recently, however, a string of budget deficits in Gulf states, combined with an urgent need to provide cheap electricity and desalinated water, are forcing Gulf rulers to concentrate their minds on commercially viable, trans-national gas supply projects.


These states include Bahrain, which has been grappling to meet increasing domestic energy demands; Kuwait, rich in oil but not in gas; Saudi Arabia, which built the Master Gas system in the late 1970s but is now struggling to keep up with rising domestic demand for power and desalinated water; and the poorer northern emirates of the United Arab Emirates, where power cuts and water shortages frequently occur, particularly during peak summer demand.

Dubai needs secure long-term gas supplies beyond the year 2000 if it is to retain its position as the leading regional entrepôt and services centre. Fortunately for the emirate, 37 per cent of proven global gas reserves lie within a radius of 500 miles.

Amoco of the US is already promoting a $2bn, 20-year cross-border gas pipeline system to bring Omani gas to Sharjah from 1998. According to Mr Tony Barrett, Amoco's vice-president for natural gas in the Middle East, this would be the first stage of a proposed Gulf gas grid. Amoco Sharjah Oil Company meets Dubai's existing needs for dry gas under a government-to-government deal. But Sharjah alone does not have enough for Dubai's long-term needs.

Dubai has been talking for some time with both Oman and Iran, as well as with Abu Dhabi and Qatar, with the last two being described as the "front-runners" because of the sheer size of their reserves and their proximity to Dubai.

Abu Dhabi has proven natural gas reserves of 200,000bn cu ft, according to BP's 1995 Review of World Gas. Qatar's North Field has 247,800bn cu ft while Iran's reserves are put at 734,000bn cu ft, second only to Russia. Oman has an estimated 22,000bn cu ft. Saudi Arabia has only slightly less than Abu Dhabi.

Little is known of the talks with Abu Dhabi, except that its ruler and UAE president, Sheikh Zayed Bin Sultan Al-Nahyan, has "given the green light to provide Dubai with up to 800m cu ft a day of gas".

Qatar's government, through Qatar General Petroleum Corporation (QGPC), has already agreed three gas export projects, with Japan, Mobil and Enron, from the North Field. To cater for Dubai, the government's preferred option is to use gas from the only foreign-owned concession in the North Field. This is operated and part-owned by Atlantic Richfield, in a group comprising Canada's Gulfstream Resources, British Gas, Germany's Wintershall and Preussag Energie. A pipeline would be built to Dubai's Jebel Ali port.

Iran is "the joker in the pack," gas analysts say. "It has enough gas to run Gulf states' power needs for 500 years; and their prices are very competitive."

But Gulf Arab suspicions of Iran, not generally shared by Dubai, inhibit wider talks.

Dubai's average annual power consumption for lighting and cooling alone is some 500m cu ft a day and in common with other Gulf states is rising by 17 per cent a year.

Estimates of future consumption trends suggest 1bn cu ft a day, the equivalent of some 7.3m tonnes a year of liquefied natural gas, is the minimum Dubai will need to meet power requirements beyond 2000 for lighting and cooling alone.

Additional supplies, "possibly 1bn cu ft a day or more", would be needed before Dubai can embark on any serious industrial venture, such as a refinery and other industries now under discussion for Jebel Ali Free Zone.

"Dubai is ready to sign," said one gas consultant retained by a Gulf government. However, there remains some disquiet over entering unfamiliar territory, such as the re-negotiation clauses which are part of any long-term gas agreement.

"But," said another consultant, "it's like sheep going through a gate. Once the first deal goes through, others will follow."

# Seoul U-turns on Hyundai steel mill plan

By John Burton in Seoul

The South Korean government yesterday said it would drop its opposition to Hyundai's plans to build a giant $10bn steel mill, in what is regarded as a reward for the group's efforts in winning Seoul co-hosting rights to the 2002 World Cup.

Mr Chung Mong-joon, a son of Hyundai's founder, was instrumental in persuading Fifa, the international football association, to grant hosting rights to South Korea and Japan. Mr Chung, who controls Hyundai's shipbuilding company, is president of the Korea Football Association and a Fifa vice-president.

Hyundai, Korea's second largest conglomerate, has lobbied the government since 1994 for permission to construct a steel mill with an annual production capacity of 10m tonnes.

The ministry of trade and industry has blocked the project, saying it would cause a production glut in the domestic steel industry.

Officials were also concerned that the project would pose a threat to the local dominance and high profitability of state-run Pohang Iron and Steel (Posco), the world's second largest steel company. Hyundai is Posco's single biggest customer.

But Mr Park Jae-yoon, trade and industry minister, said yesterday: "Hyundai may go ahead with the project at its own discretion."

The decision marks a further retreat from the government's policy of trying to prevent Korea's large industrial groups, or *chaebol*, from expanding into new business areas that would increase their economic dominance.

Hyundai's entry into full-scale steel production would follow the recent expansion of Samsung into car production and the LG group into telecom services. Hyundai said the mill, to be completed by 2001, would help integrate group activities by providing secure supplies of steel plate to its car and shipbuilding units. Hyundai now produces some steel products, such as pipes and building girders.

But some analysts question whether the steel mill will be cost-effective, with estimates that production costs for Hyundai will be twice as high as those at Posco, one of the world's most efficient steel producers.

In an attempt to dissuade Hyundai from proceeding with the project, Posco is expanding its production capacity to 28m tonnes by 1998, which would make it the largest steel company in the world.

Huge losses and lower yen take their toll □ London's HSBC seizes first place □ Tokyo's Fukushima high in profits league

# Japanese banks lose top global rankings

By George Graham, Banking Correspondent

Heavy losses in Japan's financial sector have transformed the map of the world's banking system, driving Japanese banks off the top of the league tables for the first time in years.

Hitherto, the biggest Japanese banks have outgunned their European and US rivals both by the strength of their capital base and by the size of their balance sheets.

But in this year's league table published by the Banker magazine, the combination of $17.8bn of aggregate losses and a 19 per cent depreciation of the yen against the dollar has pushed them down the list.

In their place, HSBC Holdings, the London-based group which combines the Hongkong Bank with the UK's Midland and Marine Midland in the US, tops the table with a capital base of $21.45bn.

In 1994 HSBC was the strongest non-Japanese bank, but ranked only seventh.

For the first time in recent memory, a non-Japanese bank now also has the largest balance sheet: Deutsche Bank boasts total assets of $503bn.

This year it is joined by Crédit Agricole of France, Union Bank of Switzerland and Citicorp of the US.

Dai-Ichi Kangyo, one of the few Japanese banks to record strong profits last year, ranks fifth with a capital base of $19.2bn.

In next year's table, however, another Japanese bank seems set to reclaim the top place: the merger of Mitsubishi Bank and Bank of Tokyo, completed after the compilation of this year's table, has created a giant with $27.8bn of capital and $703bn of assets.

Japan can, surprisingly, also claim one of the world's most profitable banks: Fukushima Bank produced a 121 per cent return on capital, ranking it third behind Akbank and Türkiye Is Bankasi of Turkey.

The best disclosed capital adequacy ratio under the formula laid down by the Bank for International Settlements, however, belongs to National Bank for FEA of Uzbekistan, with a BIS ratio of 107 per cent. Almost all of its assets are government debt carrying a low risk weighting under BIS rules.

It is followed by Banque de Dépôts, the Swiss private bank owned by the Latsis family, with a ratio of 72 per cent.

Among the worst performers thrown up by the Banker table, Japanese banks feature prominently. The worst profit performance of all, however, belonged to Banco do Brasil, with a loss of $4.19bn. Banco di Napoli's loss of $1.99bn, on the other hand, was larger in relation to the size of its capital base.

The weakest balance sheet belonged to Norinchukin Bank of Japan, with capital amounting to just 0.75 per cent of its assets.

WORLD'S TOP 10 BANKS ($bn)

| Ranking | Bank | Tier 1 capital | Assets | Profits |
|---|---|---|---|---|
| 1 (7) | HSBC Holdings | 21.4 | 351.6 | 5.98 |
| 2 (9) | Crédit Agricole | 20.4 | 388.4 | 2.51 |
| 3 (10) | Union Bank of Switz. | 19.9 | 336.2 | 1.75 |
| 4 (9) | Citicorp | 19.2 | 256.9 | 5.60 |
| 5 (2) | Dai-Ichi Kangyo Bank | 19.2 | 486.6 | 1.61 |
| 6 (11) | Deutsche Bank | 18.9 | 503.4 | 2.49 |
| 7 (4) | Sumitomo Bank | 18.6 | 499.9 | 0.26 |
| 8 (1) | Sanwa Bank | 17.7 | 501.0 | -2.08 |
| 9 (6) | Mitsubishi Bank | 16.7 | 475.0 | 0.84 |
| 10 (5) | Sakura Bank | 16.0 | 478.0 | -3.63 |

Source: The Banker

# Levy gives Israeli PM ultimatum over Sharon

By Julian Ozanne in Jerusalem

Mr David Levy, Israel's foreign minister, yesterday threatened to resign from Israel's newly formed government unless Mr Ariel Sharon, the hawkish member of the rightwing Likud party, was appointed to the cabinet by early next week.

The public ultimatum caught the newly elected prime minister, Mr Benjamin Netanyahu, off guard as Mr Levy pressed him to give Mr Sharon a portfolio before his first official visit to the US as premier next Monday. Mr Netanyahu said the issue would be discussed privately.

The move dealt another blow to Mr Netanyahu's attempts to consolidate his power at the expense of senior rightwing leaders. Two weeks ago, when forming his government, he was forced to bow to party pressure and shelved plans to keep top Likud members out of key government slots.

But Mr Sharon, who played a significant role in Mr Netanyahu's victory in elections in May, was left out after Mr Netanyahu refused to appoint him to the finance or defence ministries in an attempt to keep the hardline former general out of the inner cabinet.

In the past two weeks, Mr Netanyahu tried to appease the popular Mr Sharon and his outraged supporters by creating a new ministry of national infrastructures for him. However, the effort stalled when various ministers refused to relinquish sections of their offices which the prime minister wishes to unite under the new ministry's roof.

If appointed to the government, Mr Sharon could pull the government further away from the Israeli-Palestinian peace process, already threatened by the new hardline government.

While Mr Netanyahu has pledged to continue the process and is considering meeting Israel's obligations to withdraw from the West Bank town of Hebron, Mr Sharon has vowed to keep Israeli forces in Hebron and is a fierce advocate of building and expanding Jewish settlements in the Israeli occupied West Bank.

Sharon: attempts by Netanyahu to appease the popular rightwinger have collapsed. If appointed to the government, Sharon could pull Israel further from the peace process



# Egyptian warning on Arab land

By David Gardner

The new Israeli government must not use its current "grace period" with its Arab neighbours to change the terms of Middle East peace talks and take more Arab land, Egypt's foreign minister, Mr Amr Moussa, warned yesterday.

Mr Moussa, in London for talks with Mr Malcolm Rifkind, UK foreign secretary, was referring specifically to Israeli plans to expand Jewish settlements in the Palestinian West Bank and expropriate more land in Israeli-occupied Arab east Jerusalem.

Mr Moussa was the main organiser of last month's Arab summit in Cairo, called to reach a common position on the stated intention by the new government of Mr Benjamin Netanyahu to hold on to conquered Arab land, a policy which overturns the "land-for-peace" formula which has underpinned the Middle East peace process.

Mr Moussa said Israel "cannot have both things at the same time" – Arab land and peace with the Arabs. Land-for-peace had been the basis of all advances in Middle East detente, and "if the Israelis want to go back [on this] they go back alone."

Mr Netanyahu has said his government will refuse Palestinian demands for an independent state on the West Bank, and keep Syria's Golan Heights as well as Arab Jerusalem. The Cairo summit warned that if Israel reneged on land-for-peace all Arab countries would be forced to reconsider the improved diplomatic and trade relations with Israel reached under the peace process.

"We are not in the business of resuming confrontation with Israel," Mr Moussa said. "But are you [Israel] going to use your grace period to expand the settlements?"

Moussa: building EU links

The "grace period" to which Egypt and the main Arab countries refer could stretch to beyond the US elections in November, because neither Israelis nor Arabs expect the Clinton administration to take any risks in its Middle East mediation efforts before US voters go to the polls.

The Arab axis of Egypt, Saudi Arabia and Syria – the first two of which are firm US allies – has been dismayed by Washington's uncritical support for Israel in recent months, especially its endorsement of Israel's blockade of Palestinian self-rule territories and bombardment of Lebanon in April.

Mr Moussa's European visit, to France and the UK, is intended to build closer contacts with the main EU countries, as a counterbalance against the US tilt towards Israel. But the Egyptian minister stressed yesterday that no country could replicate the US role, because of Washington's close relationship with Israel. "We need the Americans as an honest broker and a fair mediator," he said.

He said Arab countries would not accept that there was any relationship between the US elections in November and any further hold-up in Israel meeting its agreed commitments with the Palestinians, including withdrawal from the West Bank city of Hebron and lifting the Israeli army blockade of the Palestinian population.

# Jiang seeking support against separatism

By Sander Thoenes in Moscow

Chinese President Jiang Zemin arrives in Kazakhstan today, the last stop on a tour of Central Asia aimed at boosting trade and enlisting support against separatism in China's north-west.

Mr Jiang visited Uzbekistan and Kyrgyzstan earlier in the week, praising their leaders for "their support on the issues of Taiwan, Tibet and the separatist movement in this region" – a reference to members of the Uighur minority who have been calling for independence for the Xinjiang region in north-western China, just across the Kazakh border.

Chinese security authorities in May described separatism as the number one threat to China and arrested thousands of people in Xinjiang. Kazakhstan is home to about 200,000 Uighur, many of them exiled separatists, and thousands more have settled in Uzbekistan and Kyrgyzstan.

Kazakh, Kyrgyz and Uzbek officials have made a point of condemning Uighur separatism and have banned nationalist Uighur movements. "We are against separatism, and against separatist tendencies in the Chinese People's Republic," said Mr Kasymzhomart Tokayev, the Kazakh foreign minister, in a recent interview. "Any cataclysm on its territory naturally leads to instability in the whole Central Asian region."

Criticised for being over-eager to side with the Chinese, however, Mr Tokayev last week told a local newspaper he would urge China to "avoid violent methods that would lead to human rights violations".

Mr Jiang is the highest ranking Chinese dignitary to tour the region since Mr Li Peng, the prime minister, visited in 1994. Mr Nursultan Nazarbayev, the Kazakh president, has visited China three times, most recently during a meeting in Shanghai where Russia, China, Kazakhstan, Kyrgyzstan and Tajikistan settled all but a few minor border disputes and pledged to draw back troops 100km from the frontiers.

Another thorny issue on the agenda is likely to be Chinese nuclear testing at the Lop-Nor site in the Xinjiang region, 1,200km from the Kazakh border. China exploded a nuclear bomb in June and plans to detonate another one in September, but has pledged to phase out testing.

The most concrete topic of Mr Zemin's talks with officials is likely to be trade.

Kazakhstan and China traded goods worth $400m last year, mostly cheap Chinese clothing and electronics and Kazakh metals.

Such trade is likely to rise with the expansion of capacity on the Druzhba railroad from Kazakhstan to China. The Japanese government has granted a $72m loan to upgrade the transfer station at the border, where goods are loaded from Russia broad-gauge trains to Chinese wagons with a narrower gauge.

Kazakhstan hopes to send 20m tons a year by train to China and has gained access to the port of Lyangunan, opening up the south-east Asian market to Kazakh metals and oil.

# Kazakhs find own way to cure ailing industry

## Faltering enterprises are being given out 'in trust' rather than sold off immediately or made bankrupt

The Kazakh government has prescribed a controversial cure for ailing state industries: hire an investor.

One such ailing enterprise was the Zhezkazkantsvetmet copper mine and smelter in central Kazakhstan, worn down by $190m in debt. The Kazakh government last year hired Samsung Deutschland, a subsidiary of the Korean industrial group, to revive production and improve management.

In return for pledges to invest and to pay off debts and overdue wages, Samsung would get 2 per cent of the smelter's profits, a variable margin on copper sales abroad and first option in any privatisation.

Now, a year after Samsung took over, production at the plant has doubled to 18,000 tons a month. Salaries are paid on time. Zhezkazkantsvetmet is recovering. But dozens of its suppliers, clients and lenders have paid a price: the government has allowed Samsung to delay payment of about $100m in debts and to suspend contracts at will.

The government recently allowed Samsung to file for the plant's insolvency, enabling Samsung to buy a 40 per cent stake in it at a price the government calls "a commercial secret". And Samsung is exempt from paying off debts for another two years.

"This should not happen in business," said Ms Valentina Zhuravlyova, vice chairman of Alem Bank, a large Kazakh bank which is being sued by a Russian bank for $10m, an advance payment it had guaranteed for Zhezkazkantsvetmet not long before Samsung took over.

"This is a heavy blow to us," she said. "For us, $10m is a lot of money. There had to be some serious inflow of cash into that enterprise. But you should solve that problem in a way that does not hurt the other partners of that enterprise."

Rather than sell off its ailing industry through privatisation or bankruptcy, Kazakhstan has over the past two years handed 65 of its largest enterprises, including virtually all of its metal industry, in trust to domestic and foreign investors.

"There's nothing like it in the Soviet Union, or the world for that matter," said Mr Alexander Mashkevich, vice chairman of Eurasiabank, an Almaty-based investment bank which took three metallurgy plants and mines in trust and claims to have spent close to $1bn reviving and then buying them.

"People come in and pay the debts, pay the salaries and promise to invest. For the state, this approach is simply ideal."

But trust management has been controversial from the start, and for every three successful contracts, two have gone sour. Some contractors simply plundered the plant and left, others ran out of capital when debts turned out to be much higher than reported.

Samsung found $120m in unreported debts, and 6,000 employees who had not been on the books.

The government simply granted Samsung a debt referral, passing the problem to Zhezkazkantsvetmet's suppliers, clients and creditors.

One construction company that is owed $12.8m has not been able to pay its 25,000 employees for five months. At least one foreign metals trader, American International Ore, has gone bankrupt partly because its contracts with several Kazakh enterprises were cancelled as soon as they were put in trust.

"We chose the lesser of two evils," said Mr Sarybai Kalmurzayev, chairman of the State Property Committee.

"The best option is a sale, a full-scale privatisation. But if an enterprise has not been producing for six or seven months, how can you say that its shares will ever be worth money?

"That's why they were handed in trust management. We wanted the enterprise to get back on its feet and then sell it."

Trust managers say that many of the traders and suppliers who were hurt when their contracts were suspended will not stand a chance in court because their contracts were fraudulent; in return for a kick-back, Soviet-era enterprise directors would sign unfavourable supply and sale contracts, robbing the state-owned plants of revenue.

"A lot of contracts were fictitious," said Mr Jong-Wan Lim, commercial director for Samsung Deutschland in Almaty. "And the money disappeared."

"A contract is a contract," insisted Mr Tuleimen Aslayev, a local prosecutor, who ordered Samsung's accounts frozen until debts were paid. But Mr Nursultan Nazarbayev, the country's president, ordered him to back off.

"They told me to shut up," Mr Aslayev said. "What can I do? I can't overrule the government."

Because trust managers are offered only a minor percentage of profits, some managers have opted to obtain revenue by plundering their plant – selling its production to itself at artificially low prices, or providing equipment at artificially high rates.


"We knew there were abuses," Mr Kalmurzayev said. "But for the sake of keeping the investor, so that he would invest money, we looked the other way."

"That's why we quickly privatised them," he added. "If it is his own enterprise, the investor will be interested in using it properly."

Samsung is expected to buy a majority stake in Zhezkazkantsvetmet later this year. But several of the plant's creditors are suing, arguing that they should have a say in the sale.

"I'm also very embarrassed about this. But we are owed money too," said Samsung's Mr Lim, adding that two enterprises which had been put in management trust owed Samsung $5m. "We don't get that money back either."

**Sander Thoenes**

AMERICAN NEWS DIGEST

# Fed leaves US rate unchanged

The US Federal Reserve concluded a policy meeting yesterday without increasing short-term rates. However it left open the option of raising rates later this summer. Figures showing a strong economic rebound in recent months had fuelled speculation that the Fed might need to raise rates to curb upward pressure on inflation. But by late last week, most Wall Street analysts concluded that an increase was unlikely before August. By leaving policy unchanged, the Fed gave itself more time to assess the economy's likely strength in the second half of the year. The economy is expected to grow at an annualised rate of about 4 per cent in the second quarter of this year, well above the rate the Fed believes is compatible with stable inflation. But there is disagreement on whether rapid growth will be sustained. Some analysts predict the economy will subside naturally, reflecting the delayed impact of increases in long-term interest rates and the relatively high level of consumer debt. By late August, the Fed will have data on July employment, production and sales and should be able to judge whether growth is slowing. *Michael Prowse, Washington*

## Mexico to write off tax arrears

The Mexican government yesterday offered to write-off part of the tax arrears owed by more than 1.6m taxpayers. Tax revenues, which account for almost two-thirds of government income, have shrunk by more than 10 per cent this year, partly because of last year's deep recession, but also because the economic squeeze has encouraged more tax evasion. As a result, most private-sector economists are forecasting a small deficit in the government's fiscal balance in 1996.

Finance ministry officials estimate the exchequer is owed about 7bn pesos ($930m) in tax arrears. They calculate tax evasion costs the government a further 60bn pesos in uncollected revenues, a sum equal to about one-third of the government's annual tax income. Mexican companies or individuals who owe the exchequer more than 5,000 pesos will be allowed to restructure payments over four years. Those who owe less than 5,000 pesos will have half their debt forgiven if they pay up before the end of the year.

● Mr Carlos Tomás Peñaloza Webb, a former treasurer of the Mexican Social Security Institute (IMSS) who faces charges of embezzlement, has not yet been arrested, according to Mr Antonio Lozano, the attorney-general. The Mexican government on Monday announced that Mr Peñaloza Webb had been detained in connection with a $50m fraud at the IMSS, which handles the state pensions and savings of 9m affiliates. Mr Lozano, however, said the judiciary had not yet issued an arrest warrant for the former IMSS treasurer who was fired five weeks ago after trading losses at the IMSS were uncovered. *Leslie Crawford, Mexico City*

## Argentina misses IMF targets

Argentina has acknowledged it will be unable to meet International Monetary Fund fiscal targets for the first half of the year and will seek to modify its deal with the Fund when an IMF delegation visits Buenos Aires next month. Speaking during a visit to Canada, Mr Domingo Cavallo, the economy minister, said: "We are a little under the objectives set in negotiations with the IMF, but the shortfall is not very large."

He said Argentina would have to seek revisions in the IMF targets set for the third quarter. The economy ministry said second quarter revenues were likely to fall short of agreed levels by between $250m and $300m. Argentina last February agreed with the IMF to balance its budget in 1996, with a $2.5bn shortfall of tax revenue to expenditure being plugged by privatisation receipts. *Matthew Doman, Buenos Aires*

# Early US primaries may be penalised

By Olessia Smotrova in Washington

The Republican party's concern over the frontloading of primaries and caucuses early in the election season may bring changes in the rules governing the selection of a presidential candidate.

In future, states which hold their primaries later in the season may be rewarded with bigger delegations to party conventions.

This year Mr Bob Dole in effect wrapped up the Republican nomination in South Carolina in early March, after only six small states had voted. Big states, including California and New York, which had brought forward their primaries to exert greater influence, found their contests virtually irrelevant.

Mr Jim Nicholson, head of a special party task force, said the compressed election schedule had depressed voter turnout in the states which held late primaries, while candidates expressed their discontent with having no opportunity to make adjustments to their strategies with primaries and caucuses so close together.

To prevent this next time, Mr Nicholson's study suggested a system of incentives, so that states would benefit from spreading their primaries or caucuses over time.

In particular, it suggested that "states holding primaries or caucuses between March 15 and April 14 would receive a 10 per cent increase in their delegation allocations" to the party convention. An additional 10 per cent increase would be offered states holding votes between April 15 and May 14. The biggest increase in delegates – an extra 20 per cent – was proposed for states holding primaries on or after May 15.

If the changes are approved, they will come into effect in the 2000 Republican National Convention. The Democratic party, which initiated early regional primaries in the 1980s, has been kept in touch with the Republican study.

# Peru set to join Brady market

**Richard Lapper** and **Sally Bowen** on a vital chapter in Latin America debt saga

Peru is putting the final touches to a plan to convert its non-performing bank loans into Brady bonds by the end of the year. By paving the way for a comprehensive rescheduling of Peru's $32bn external debt the deal will bring one of the most complicated chapters of Latin America's debt crisis nearer to a close.

It also marks the zenith of the $140bn plus market for Bradys, now the biggest and most liquid emerging bond market with trading volumes amounting last year to $1,580bn. Peru will become the 10th Latin American country and the 15th country to issue Brady bonds since they appeared as part of Mexico's debt settlement plan in 1990.

Named after the then US Treasury Secretary Mr Nicholas Brady, the bonds are either issued at a discount of up to 50 per cent – or pay lower interest – than the non-performing commercial loans that they replace.

But they have now long been regarded as the only viable way out of the impasse of the debt crisis: in essence, Bradys are a means of turning non-performing loans into tradeable securities, thereby creating a more liquid market for the debt than the more cumbersome secondary market for loans.

"Latin American governments have effectively securitised a huge slug of commercial debt," says Mr Michael Atkin, director of the Latin American department at the Institute for International Finance in Washington.

On certain issues, the repayment of principal and of some interest is guaranteed by the state issuing the bonds by collateral held in trust by the New York Federal Reserve Bank. But no issuer – so far at least – has defaulted.

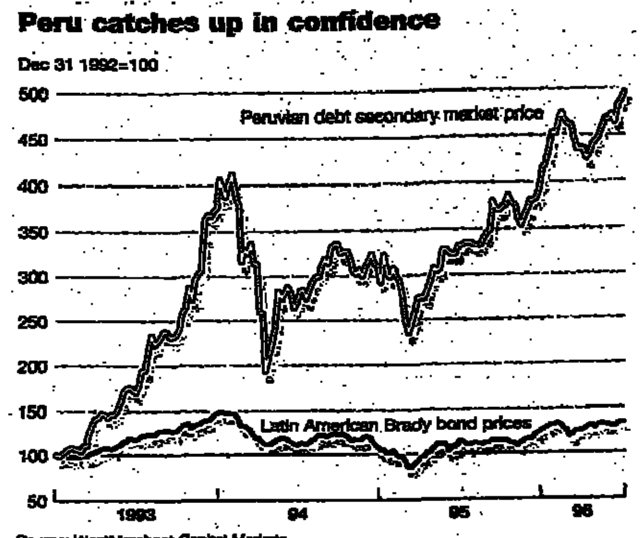
Peru will issue its Bradys before the end of the year. Trading on the secondary markets of its existing bank loans stopped this week. Just over $10bn of commercial bank debt – including back interest – is included in the deal.

During roadshows held in Europe and the US last week bankers and investors were offered four alternatives: they can exchange their loans for more liquid tradeable debt either for cash (at a discount to face value with the rate of exchange to be determined by an auction); or for three separate classes of Brady bond.

Although credit lines currently open to Peruvian businesses are considered adequate, many banks already lending to Peru are doing so on the expectation that a Brady will be signed. And some banks and investment funds are holding back from channelling money to the country until the deal is completed, according to government officials. As Peru clears its arrears and meets payments on its debt, it will become a better proposition for both bankers and investors.

Since 1990 the prices of Bradys have gradually risen, as Latin American economies have been stabilised and their creditworthiness improved. This process was stalled by the peso crisis of December 1994 –

**Peru catches up in confidence**




Source: WestMerchant Capital Markets

when devaluation in Mexico triggered a flight of capital from the region – but the interruption proved to be temporary.

This year in particular, with interest rates in the US, Europe and Japan relatively low, a growing range of investors have been attracted to the higher yields offered by Bradys and other emerging market bonds. Although yields offered by Bradys have fallen sharply over the past 18 months they are still high compared to more mainstream bond markets.

Yesterday annual yields on Brazilian Bradys, for example, were more than 12 per cent compared with nearly 7 per cent for US Treasury bonds, while yields on Ecuadorean Bradys were more than 15 per cent.

Although Latin America's relatively narrow export base leaves it open to a recurrence of Mexican-style shocks, many countries are seeking to take advantage of their improved credit rating on their success with Bradys by raising new long-dated debt, either directly in the euromarkets or by swapping Bradys for conventional longer-dated bonds.

In May, for example, Mexico swapped some $1.75bn of Brady bonds for more conventional 30-year bonds, whose principal is not guaranteed, which some investors have found attractive because they pay a higher yield.

Other countries, including Brazil, are examining similar programmes. Some Brady bonds have even been repackaged by investment banks and sold in chunks small enough for European retail investors to buy.

The trend shows that the "Brady plan worked well and continues to work well," says Mr Michael Chamberlin, executive director of the Emerging Market Traders Association (EMTA) in New York. "After the lost decade of the 1980s, you now have forward-looking voluntary market transactions. A sea change has occurred."

Although Latin America may have overcome the worst of the 1980s debt crisis the continent is still vulnerable to external shocks. Peru and many smaller countries owe large amounts of money to other governments – so-called Paris Club debt – for example.

Peru's Brady deal will reduce the cost of servicing its commercial bank debt by about half to $350m. But because Peru has not actually been making payments on its debt, real outgoings will increase. Even so, overall debt servicing costs will still amount to some $1.16bn this year, equivalent to almost 21 per cent of current export earnings, with that amount rising to $1.37bn in 1997, according to Mr Jorge Camet, the finance minister.

Argentina, Brazil and Mexico do not face such difficult problems with official debt. However, for all the success of the Bradys, the burden of debt servicing represents a constraint on development.

"It is important not to draw the conclusion that Latin America had a problem and it has fixed that problem," says Mr Atkin. "They continue to be fragile economies".

Central bank sets parameters as part of IMF standby loan programme

# Venezuela to fix fluctuation band

By Raymond Colitt in Caracas

The Venezuelan central bank will next week introduce a formal fluctuation band for its currency as part of a standby loan programme negotiated with the International Monetary Fund, according to central bank officials.

Mr Domingo Maza Zavala, director of the central bank, said a 15 per cent permitted margin of fluctuation for the bolívar would allow it to float "7.5 per cent upwards and downwards". The band would be adjusted in accordance with expected inflation, he said. The government expects to bring monthly inflation down from 7.1 per cent in June to under 2 per cent by the end of the year.

Mr Maza said the band, included with a $1.4bn IMF loan agreement, would be implemented before the IMF's executive board's approval for the loan due on July 12.

He admitted that central bank currency policy in recent weeks had already been guided by an implicit, though somewhat wider, band. The purpose of making the band public, says Mr Luis Rivero, a central bank director, "is to provide parameters of where this [foreign exchange] market is going".

Since it was floated on April 22, the bolívar has been stable at around Bs470 to the dollar, despite accumulated inflation of more than 20 per cent.

According to some analysts, the reason is that the initial weakness, which saw the currency sink from Bs290 to Bs470 to the dollar, produced an undervalued bolívar. "There was an overshooting in the bolívar's depreciation, producing a safety margin that could absorb pressures on the currency for some time," says Mr Francisco Faraco, a banking consultant.

With investors encouraged by the IMF-backed economic stabilisation programme launched in April, the much-feared capital flight did not set in. "With an under-valued currency and inflation expectations below interest rates, positioning in bolívars appeared attractive in the short term," says Mr Pedro Palma, vice-president of Booz Allen & Hamilton.

With the demand for imported consumer goods down and oil exports up, Venezuela's current account improved and, according to Mr Palma, could show a $3.5bn surplus by year-end. Instead of being consumed in the defence of the bolívar, the international monetary reserves rose from $9.79bn at the end of April to near $10.6bn by the end of June.

Yet pressure is beginning to mount on the currency. "Inflation is eating up the cushion that the overshooting produced," says Mr Faraco.

Intervention of the central bank to maintain the exchange rate at Bs472 to the dollar has increased from an average $3m a day to a maximum of $50m a week, according to Mr Antonio Casas, president of the central bank.

Indeed, the bolívar's continued stability will largely depend on the government's success in bringing down inflation, currently one of the region's highest at 108.1 per cent for the past 12 months.

A nominal inflation anchor implicit in a foreign exchange band system, says Mr Domingo Fontiveros, an economic analyst, "only makes sense once you bring down annual inflation to a single digit and overhaul your public finances."

He says a sales tax increase will add 5-7 percentage points to July's inflation rate, while outstanding salary bonuses and utility rate increases will also exert inflationary pressure.

There are also worries that excess liquidity in the financial system is keeping interest rates lower than they should be to subdue inflation. However, short term rates at around 32-33 per cent remain well above the government's forecast inflation rate later this year.

According to Mr Luis Berrizbeitia, executive director of the IMF, Venezuela is "right on target" to achieve 1.5 per cent monthly inflation by year-end and 20 per cent inflation over the next 12 months. "These are ambitious targets but I think we're on track," he said.



# US turns big guns on the Vipers

By Christopher Parkes in Los Angeles

If the rag-tag members of the anti-government militia gang arrested in Arizona this week were really plotting spectacular assaults on federal buildings, they seem to have made little effort to conceal their preparations.

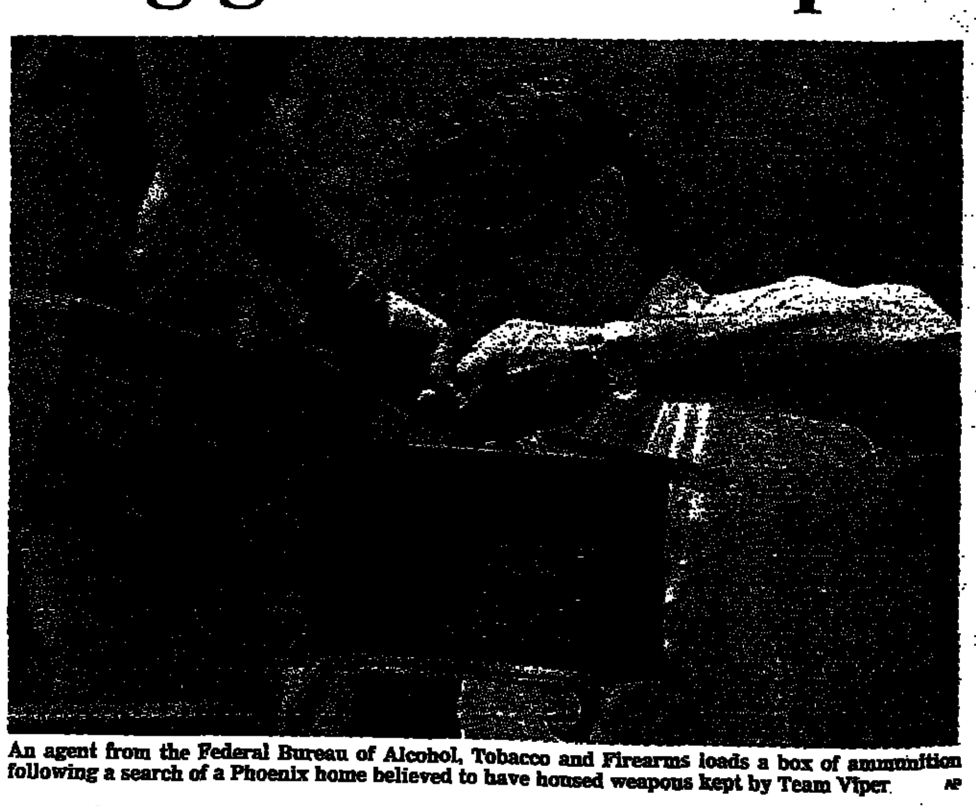
Four of the 12 so-called "Team Viper" members picked up and charged with conspiracy and explosives charges, routinely bought one or two 1,500-round cases of ammunition on monthly visits to their local gun store.

They demonstrated their fire power to friends and guests in the deserts around Phoenix, and, perhaps, most telling, one alleged leader was so full of himself that his boasting and "Rambo" style got him thrown out of the "mainstream" Militia of Arizona association earlier this year.

Mr Finis Howard Walker III, a second-hand furniture salesman from Glendale, was so hostile to federal authorities, and fitted so well the media stereotype of a gun-toting, bomb-happy white supremacist, that his erstwhile comrades suspected him of being a government spy.

In the end, it was a real-life police infiltrator who brought down the Vipers in the biggest reported catch yet of alleged home-grown terrorists.

The conclusion of a six-month investigation, saluted by President Bill Clinton as having averted "a terrible terrorist attack", may have been a coup in federal eyes. But there is a strong thread of local opinion which characterises the action as a transparent and unsuccessful bid to demonstrate Washington's authority among independent minded



An agent from the Federal Bureau of Alcohol, Tobacco and Firearms loads a box of ammunition following a search of a Phoenix home believed to have housed weapons kept by Team Viper AP

groups which want none of it.

Arizona is home to at least a dozen militia groups, mostly dedicated to "leaderless resistance" to such federal intrusions into their desert fastness as tax demands and proposals for gun controls.

In keeping with its Wild West heritage, the state boasts a set of the most liberal gun laws in the nation. Virtually any adult without a criminal record can carry a gun openly on the street. About 50,000 concealed-weapon permits are also in circulation, and the sheriff routinely holds public auctions of guns captured in the course of his duties.

Shooting is a popular and largely unregulated family pastime. Youngsters learn the skills "plinking" or shooting cans and bottles with small calibre guns. Vandals blast cactuses and road signs. Team Viper, in addition, favoured blowing holes in the desert with fertiliser bombs enhanced by the addition of high octane car racing fuel.

Although they have been described by their gun dealer as "family guys ... like you and me ... they have short hair," their allegedly detailed plans, including a home-made videotape demonstrating how best to place explosives in a building to gain maximum destructive force, set them apart from the mass of Arizona's fun-loving gun owners.

If their collection of about 70 shotguns and rifles and a belt-fed Browning machine gun known affectionately as Shirley is arguably an acceptable arsenal for a 12-strong group, the large volume of primitive bomb-making materials gathered so far, is less so.

Team Viper, some locals say, was nothing more than a bunch of weekend warriors playing war games in the woods and having fun blowing holes in the landscape. Even if that is all they were up to, Arizona is probably a safer place thanks to this week's swoop.

# Delhi orders sharp rise in oil prices

By Mark Nicholson in New Delhi

India has sharply raised the government-controlled prices of petrol, diesel and liquefied petroleum gas for the first time in two years, citing rising international prices and the need to contain the foreign exchange cost of surging oil imports.

Prices for the three products have been raised by between 25 and 30 per cent, the sharpest rise this decade. The previous Congress government had deferred the increases in its pre-election effort to suppress inflation.

The rises will court unpopularity for the newly elected United Front government, which has already encountered accusations from left wing groups of being "anti-people" for apparently urging government job cuts. However, economists said the move was a welcome indication of fiscal prudence. "It's a signal they appear more serious about the fiscal balance than we thought," said Mr Shashanke Bhide, chief economist at the National Council for Applied Economic Research.

The rises pushed petrol prices up 24 per cent to Rs16 (45 cents) a litre, diesel up 29 per cent to Rs7.6 a litre and the price of a cylinder of LPG, a popular urban cooking fuel, up 28 per cent to Rs104.

The Petroleum Ministry said the rises would add 1-1.2 percentage points to the rate of wholesale price inflation, now running at 4.5 per cent.

The government said it hoped to ease the effects on India's poorest people by not raising prices for kerosene, widely used as a cooking fuel in rural areas.

But it said it had been otherwise forced to raise petroleum product prices, which apart from lubricants are all state-managed, because of the rise in crude oil and petroleum prices, exacerbated by the depreciation of the rupee against the dollar over the past year.

India's government cross-subsidises fuel prices and places any surplus from the difference between world and controlled local prices into an "oil pool", *resources from* which are used to finance the capital spending of India's state-run oil companies. However, this "pool" has been running a rising deficit, starving the companies of investment funds.

The Petroleum Ministry said the price rises were aimed at reducing dues to the state oil groups, which it said were otherwise set to reach Rs117bn ($3.3bn) by March next year. The rises would cut this deficit to Rs20bn, the ministry said.

However, the government said it was also concerned to curb fast rising foreign exchange outflows on oil and petroleum imports, which last year rose 10 per cent to Rs22bn, equivalent to 20 per cent of India's total export earnings, and a sum the ministry said was on course to top Rs25bn in 1996-97. India meets only half its oil demand through domestic production.

# Japan to retain easy money

By William Dawkins in Tokyo

The Bank of Japan yesterday confirmed it would keep to its present loose monetary policy, an announcement expected to underpin the dollar's recent rise to a 2½-year high against the yen.

Mr Yasuo Matsushita, central bank governor, said: "We will keep our current stance and watch conditions carefully ... We are now at the stage where we are trying to determine whether the economy will be able to move into a sure recovery phase."

He was speaking after a quarterly meeting of BOJ branch managers, the bank's main source of intelligence on economic conditions in regional Japan.

Data from the government's Economic Planning Agency last month showed a 12.7 per cent annualised rate of growth in gross domestic product in the first quarter of the year, provoking speculation in the capital markets that a rise in the current record low 0.5 per cent official discount rate might be on the way.

But the BOJ branch managers' meeting has given a more moderate picture than that shown in the GDP data. This is said by foreign exchange dealers to be a factor in the dollar's rise from just under to slightly above Y110 in Tokyo yesterday afternoon.

The yen's decline caused a fall in Japanese government bond prices a day earlier, in response to which Mr Ryutaro Hashimoto, the prime minister, voiced concern over rapid exchange rate shifts. But Mr Matsushita argued yesterday that the dollar's latest rise was simply in line with the trend since last April, when the US currency peaked at Y79.75, threatening to push the Japanese economy into a full-scale slump.

Japanese executives were relaxed about the yen's decline, having over the past decade become accustomed to complaining about how the yen's strength had eroded export earnings.

Mr Shoichiro Toyoda, chairman of the Keidanren business federation, said the yen-dollar rate had "returned to a level matching Japan's economic might". Mr Jiro Nemoto, president of the Nikkeiren employers' federation, added that a dollar at between Y110 and Y120 was "desirable".

Toyota, Japan's largest car producer, which exports 37 per cent of output, said it would earn an extra Y140bn ($1.27bn) profit in the current fiscal year if the dollar held at Y110. A Y1 drop in the exchange rate, if sustained over a year, adds Y10bn to group profits, said a Toyota official. The same exchange rate drop is worth Y1bn at Nippon Steel.

# Malaysia confident over Borneo dam

By James Kynge in Kuala Lumpur

Malaysia signalled its determination yesterday to see construction of a controversial US$5.5bn dam go ahead in spite of a court ruling that the project is "invalid".

Tenaga Nasional, the state-run power company, signed an agreement which fixes the price it will pay to the Bakun hydroelectric dam for 30 years after it is due to begin production in 2002.

Observers said the signing reflects the government's confidence that an appeal against the Kuala Lumpur court's ruling, to be heard on July 11, will be successful. "The price agreement lays the financial foundation for the dam's construction," said one observer.

A high court in June ruled that the government's decision to build south-east Asia's largest dam deep in the Borneo jungle violated environmental laws. The ruling came just days after a consortium led by Swiss-based ABB Asea Brown Boveri had won the main contract to build the 2,400MW dam, which requires the clearing of 69,000 hectares of rainforest and the resettlement of at least 9,000 tribal residents.

Construction work on the dam is expected to start late this year, after preparatory work is completed.

ABB has undertaken that local companies will receive at least 30 per cent of the contract value. ABB will be responsible for project management and for supplying six 240MW generators and a 500KV transmission system linking the Borneo state of Sarawak with mainland Malaysia.

Tenaga's price agreement also clears the way for Ekran, the main dam sponsor, to raise funding.

The agreement stipulates Tenaga, which will buy 70 per cent of the dam's power, will pay 16.5 cents per kilowatt hour for the first five years and 17.0 cents for the next 25 years. Mr Ting also said Bakun would have to pay Tenaga M$50,000 (US$20,000) a day if it failed to provide power from 2003.

Tenaga said it would take a 35 per cent stake in Bakun Hydroelectric.

Tighter taxes in China ☐ More competition from Japan ☐ Demand weakens in Europe

# Variety of factors slows down Asia's exports

By Peter Montagnon, Asia Editor, in London

Ask most Chinese exporters why they are exporting less this year, and the answer will almost certainly include a complaint about tax.

To save money the Chinese government has not only reduced value added tax rebates to exporters. It is also delaying payment of what it owes, so that rebate arrears now amount to some Yn55bn ($6.6bn).

Chinese officials acknowledge that the arrears act as a significant though temporary disincentive, but some economists believe that exports may be being held back by China's relatively strong exchange rate. Mr Shi Guangsheng, vice-minister of foreign trade, admitted in a recent interview that this was *a factor, though not a serious* one.

But the consistency of Asia's export slowdown suggests that more than individual factors are at work. Many blame weakness in the US for low prices on electronic goods. This is bound to affect countries such as Malaysia, where 65 per *cent of exports are electronic* goods, as well as the Philippines and Thailand, where the share is around 20 per cent.

Another possibility is that the dollar's recovery against the yen – it now stands at around Y110, some 27 per cent above last year's low – has made Japanese exports more competitive.

This will make life harder for some Asian exporters, notably those in South Korea, which compete heavily with Japanese companies in world markets. Taiwan's exporters also compete with Japan in electronics and semi-conductors. But there *is* a positive side to the yen's decline as well.

A weaker yen has helped the Japanese economy recover, and that has boosted Japanese imports. Japan's imports from the rest of Asia rose 30 per cent in the first five months, compared with 13 per cent in the same period of last year.

A more significant problem may relate to Europe, where demand was also slow at the start of the year.

Though overall figures are not yet available, China's exports to Europe declined by $5.5bn to $33.2bn in the first quarter.

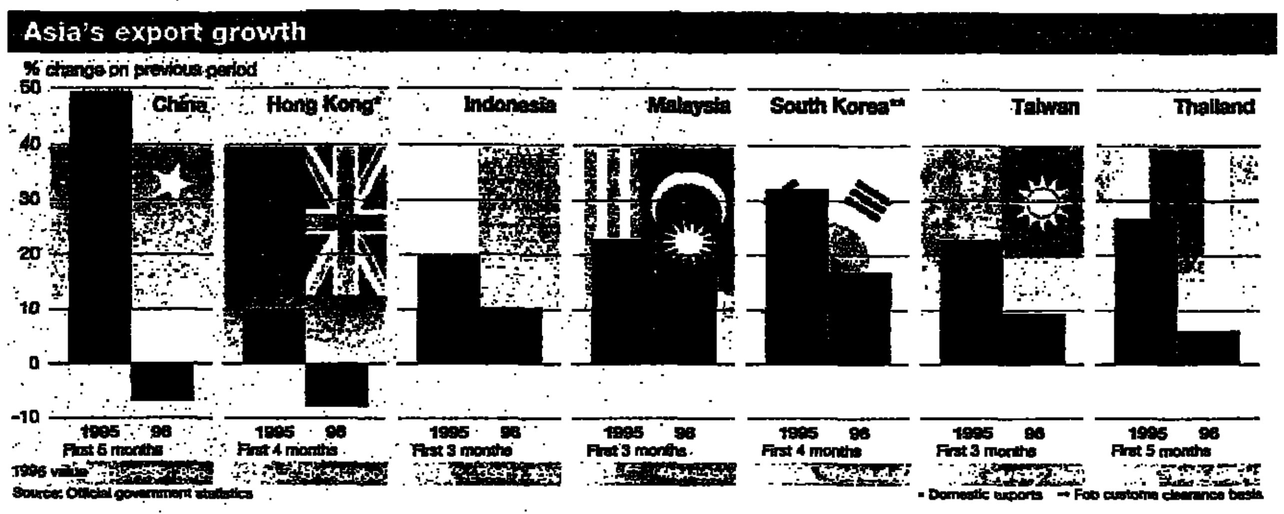
In contrast China's exports *to the US were still growing, if* only by 6.4 per cent in the first four months compared with 26 per cent in the same period of 1995.

Thai economists say their country's exports have also been affected by last year's floods, which led to a shortage of raw materials for the country's large processed foods industry, as well as by competition in the textiles and footwear market.

If the trend continues economic growth is likely to slow as well, though in some countries weak export demand is being offset by other factors.

Malaysia's exports may have slowed but that has not stopped the boom in consumption, and the government is keeping the party going with its lavish infrastructure projects.

Asia's export growth



Source: Official government statistics  * Domestic exports ** Fob customs clearance basis

# South Korean executives blown off course

Drastic measures are ordered as something of a panic over the economy takes hold, writes **John Burton**

South Korea's Samsung Electronics has decided things have got so bad it has ordered its executives to stop playing golf. And Mr Kim Young-sam, the country's president, has urged his people "to refrain from indulging in luxuries and over-consumption and from making unnecessary overseas tours". The national economy, he says, "is in trouble".

Something of a panic has gripped Korea. The Seoul bourse is at its lowest point in 30 months.

Yet the economy appears to be performing robustly even by east Asian standards. Gross domestic product grew an annualised 7.9 per cent in the first quarter of 1996.

Nonetheless, concern is growing over a current account deficit which the government predicts could reach a record $11bn-$12bn this year. At about 2 per cent of GDP, this is high by Korea standards.

There is little doubt that all the country's main export industries are confronting a slowdown. Exports in June grew by a mere 2 per cent, the worst monthly performance since January 1993.

The Korean currency, the won, has been appreciating against the Japanese yen, harming the car and shipbuilding industries that are in direct competition with the Japanese.

International prices for semiconductors, steel, and petrochemicals are falling as a result of excess global capacity. Cheaper products from south-east Asia are undercutting the textile and consumer electronics sectors.

Korea's large conglomerates, or *chaebol*, are expected this month to announce cuts in investment plans and sales targets for 1996. Advertising and entertainment expenses are being slashed, while some groups are even contemplating sacking workers, in spite of a reputation for providing lifetime employment.

The government, however, believes the widening current account deficit will not end in an economic slump. Officials express cautious optimism that the deficit will begin to narrow in the second half of the year as imports of raw materials and capital goods slow with the exports they are used for.

Moreover, the government insists that GDP growth for 1996 will meet its official target of 7 per cent, against 9 per cent in 1995, in spite of the slowdown in exports and industrial investments.

Officials are planning to increase spending on infrastructure projects to help boost the economy. The state tobacco company will be privatised next year, which will provide $3.5bn for public work construction, while companies taking part in railroad, port and airport projects will be allowed to raise foreign loans for the first time in a decade.

But private economic institutes in Korea regard the expanding current account deficit as a sign of weaker economic performance, with most having recently downgraded their GDP growth projections to below 7 per cent for 1996.

One worrying sign is that inventories in May grew by the highest monthly rates since June 1990, when the economy was last heading for an abrupt slowdown.

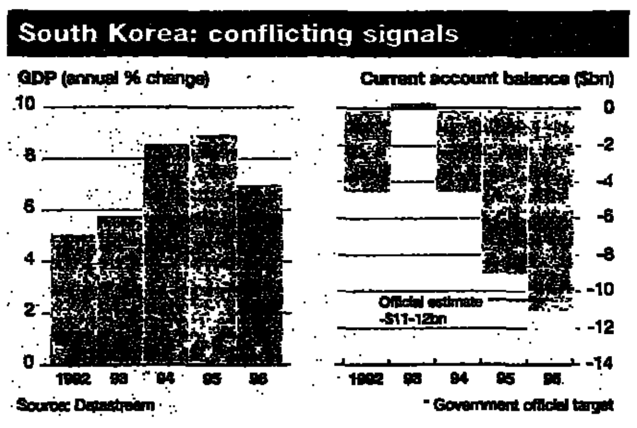
The "economy is clearly suffering from excess capacity and the inventory build-up will likely drag GDP lower in the next quarters," according to a recent forecast by Deutsche Morgan Grenfell, the UK securities firm.

Even if the economy is able to surmount the present difficulties, the trade gap still serves as a warning about structural problems in the economy.

Korea relies on only a few key export industries that are vulnerable to global cyclical downturns. It is heavily dependent on imports of capital goods and industrial components, particularly from Japan, to manufacture these products, with the result that Korea normally runs a trade deficit.

Moreover, manufacturing costs are rising sharply because of high wages, land prices, and interest rates, while productivity growth is not keeping pace.

South Korea: conflicting signals



Source: Datastream  * Government official target

ASIA-PACIFIC NEWS DIGEST

## HK to start mortgage body

Hong Kong yesterday gave the green light for a government-owned mortgage corporation, in response to a growing demand for housing finance and to support the stability of the banking sector. Mr Joseph Yam, chief executive of the Hong Kong Monetary Authority (HKMA), said a two-month consultation period with industry associations had brought a "very favourable" response and the mortgage corporation should be up and running within 12 months. He said the body would have initial capital of HK$1bn (US$130m) and would develop its business in two phases, starting with the purchase of mortgage loans for its own portfolio, followed by the issue of mortgage-backed securities. The HKMA said it had kept Chinese financial officials closely informed about the development.

"Unless a secondary mortgage market is developed through the setting up of the mortgage corporation, the concentration risk of the banking system is going to increase beyond a prudent level," he said. According to the HKMA, property-related loans have risen from 26 per cent of total banking exposure in 1980 to 39 per cent last year.

Some banks have expressed doubts about the magnitude of the forecast mortgage funding shortfall, put by the HKMA at more than HK$780bn by 2005. They have also expressed concerns about the possible reduction of profit margins in mortgage lending and questioned whether the HKMA, as banking regulator, should also be involved in the management of the mortgage corporation. *John Ridding, Hong Kong*

## Jakarta to bar opposition group

The Indonesian government will not permit a political faction headed by opposition leader Ms Megawati Sukarnoputri to contest parliamentary elections next year, it has made clear, in spite of continuing demonstrations against her removal as leader of the Indonesian Democratic party (PDI). A government-sanctioned congress last month replaced Ms Megawati with a leader approved by the government. "Only the PDI executive board formed at the congress in Medan [Sumatra] will be invited to any activity organised by the National Election Institute," Mr Yogie Suardi Memet, the home affairs minister, said. The government is believed to have been concerned that Ms Megawati's popularity would draw votes from President Suharto's ruling Golkar party at a time when there is growing resentment at his hold on power.

President Suharto, who seized power from Ms Megawati's father, Mr Sukarno, in 1965, has never been opposed in the six times he has stood for president. *Manuela Saragosa, Jakarta*

## Vietnam industry output up 13%

Vietnam said yesterday its industrial output grew at a year-on-year rate of 13.2 per cent in the first six months of this year, providing further evidence that the country's reform-led boom is still going strong. The General Statistics Department said production growth in the state sector and the non-state sector was 13.1 per cent and 13.3 per cent respectively. However, there was a slight slowdown in the overall output growth rate – from 14.0 per cent in 1995 and 13.5 per cent in the first half of that year – largely because of lower output of cement, oil and gas. In a policy document released last week, the ruling Communist party set an annual output growth target of 14-15 per cent between now and 2000. *Reuter, Hanoi*

## Mongolian coalition picks PM

Mongolia's newly elected Democratic Union Coalition has nominated its leader, Mr Enkhsaikhan, as the next prime minister. The leaders of the coalition's two main parties have been chosen to head the Great Hural, or parliament. Mr Gonchigdorj, leader of the Social Democratic party, was nominated as speaker with Mr Elbegdorj, head of the National Democratic party, as deputy. *Reuter, Ulan Bator*

# BA pilots vote to strike over pay rates

By Robert Taylor and Michael Skapinker in London

British Airways pilots have voted overwhelmingly for strike action, raising the prospect of the airline's fleet being grounded during the busy summer season.

BA said it hoped a strike would be avoided but hinted that it would bring in new pilots if necessary to maintain services.

The British Airline Pilots' Association said yesterday that 90 per cent of BA pilots had voted to strike in a 94 per cent turnout. Mr Chris Darke, general secretary of Balpa said last night: "This is a tremendous result and shows the determination of the pilots."

The union's executive meets early next week to decide what form of strike action to take. But Balpa officials are likely to hold further negotiations over the next few days to try to resolve the dispute that threatens to have a severe impact on the airline's services.

Mr Robert Ayling, BA's chief executive, strongly condemned the vote but said he noted that Balpa had not yet scheduled industrial action. He said: "I do not believe that talk by Balpa of a strike is in the interests of the union, its members, our customers or, indeed, the country."

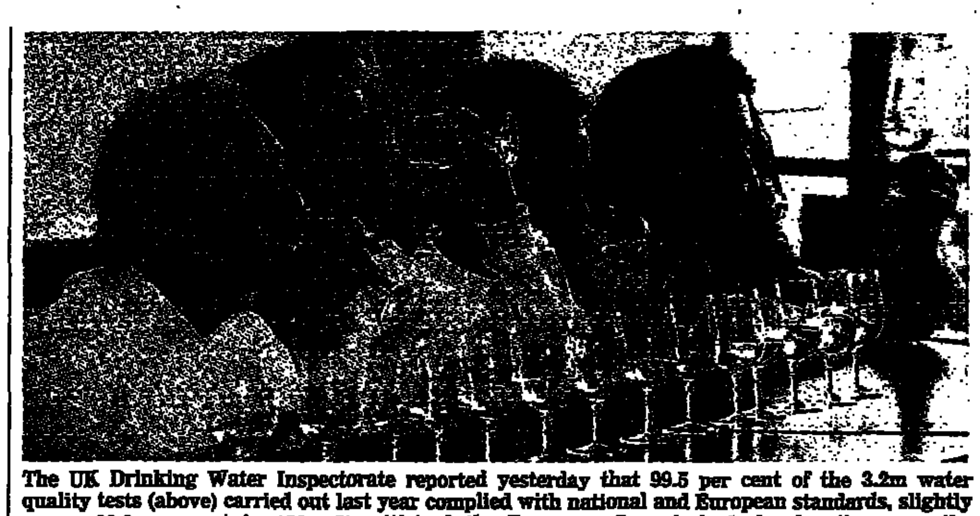
He hoped industrial action would be avoided but he said BA had 3,000-4,000 applications on its books from people who wanted to be pilots, many of whom were already qualified to fly. Mr Ayling said: "We will maintain as much of our service as possible."

Mr Ayling said he remained ready to talk to Balpa but he said other BA employees had already accepted the company's offer of a 3.6 per cent pay increase this year and inflation plus 0.5 per cent next year.

Mr Ayling said: "I'm prepared to do anything that's reasonable in the interests of our customers and the company as a whole. What we won't do is prefer the interests of one group of employees over others because of the threat of industrial action." The union says BA's flight crews are angry at the way they have been treated by the company. They dislike the new lower pay rates being introduced for pilots who join BA. It claims 200 flight crew earn only between £18,000 ($27,540) and £19,000 a year.

The union also complains about the lack of any pension enhancement to their non-contributory pension schemes which other BA employees have received in this year's pay package.

Mr Ayling said the pension enhancement was available to all employees who earned less than £32,000 a year. He said the average salary for BA pilots was £74,000 before the increase on offer. The most senior pilots earned over £100,000 a year with benefits, he said.



The UK Drinking Water Inspectorate reported yesterday that 99.5 per cent of the 3.2m water quality tests (above) carried out last year complied with national and European standards, slightly up on 99.3 per cent in 1994. It criticised the European Commission's legal action over the pesticides in British water and suggested the openness of the UK system lay behind the complaint.

# City regulatory bodies to tighten co-operation

By George Graham, Banking Correspondent

Top officials from the UK's banking and securities regulatory authorities are to take seats on each other's boards in a bid to improve co-operation.

Sir Andrew Large, chairman of the Securities and Investments Board, will take a seat on the Board of Banking Supervision, which oversees the Bank of England's regulation of the banking system. In return, Mr Howard Davies, the Bank's deputy governor, will become a member of the SIB.

The aim is to step up co-operation so that problems at financial conglomerates such as Barings bank, which collapsed last year after it ran up trading losses in the Singapore and Japanese futures exchanges, do not slip through the gaps between regulators.

In the wake of Barings and other collapses, regulators have stepped up formal co-operative links between bank and securities regulators in each country and across borders.

The Bank of England and the SIB are now working with the US's Securities and Exchange Commission, Federal Reserve and Commodity Futures Trading Commission on a series of joint visits to global financial conglomerates whose activities fall under a range of different regulators.

Last week's summit of the Group of Seven leading industrialised nations in Lyons endorsed proposals for a lead regulator to be recognised as having primary responsibility for each financial conglomerate, a step which regulators hope will improve co-ordination and the exchange of information.

**Sir Andrew Large, chairman of the Securities and Investments Board, yesterday called for the SIB to be given additional power to investigate possible cases of market abuse and malpractice, John Gapper writes.**

**Sir Andrew said it was unsatisfactory that the SIB had to be called in by self-regulatory organisations such as the Securities and Futures Authority before it could launch its most thorough form of investigation.**

**There have been tensions between the SIB and SROs over the balance of their powers, established under the 1986 Financial Services Act.**

**SROs have argued that the SIB wields too much say over their day-to-day regulatory activities.**

# British Energy shares warning

By Antonia Sharpe

Salomon Brothers, the US investment bank, yesterday joined a growing band of financial institutions which have advised investors not to buy shares in British Energy, the UK nuclear generator which is in the process of being privatised.

The 26-page report, by Salomon's utilities analyst Mr Michael Cohen, said there was "no compelling reason" to buy the shares even if they are priced near the bottom end of the government's fully paid target range of between 180p and 230p, which values the company at between £1.26bn ($1.93bn) and £1.56bn.

The publication of the report coincides with the start of the international offer book-building period which runs from today until July 12. During this period, domestic and overseas institutions make bids for the number of British Energy shares they want and at the price they are prepared to pay.

BZW, the government's broker to the British Energy flotation, said yesterday that Salomon's report reflected the variety of views in the market about the direction of electricity pool prices, which will have a direct impact on British Energy's earnings, and other external factors which could affect the valuation of the company.

BZW added that initial indications from institutional investors suggested that demand was most likely to come in between 200p and 230p a share, which would value the company at £1.36bn and £1.55bn. At this level the yield on the shares would be between 7.72 per cent and 8.83 per cent.

Other banks involved in the transaction said yesterday that institutional investors were also divided about the direction of pool prices, but that they were attracted by British Energy's generous yield and its strong cash generation.

Salomon's report is the latest in the series of cautious reports from SBC Warburg, Merrill Lynch, Deutsche Morgan Grenfell and ABN-Amro Hoare Govett. Of all the reports, SBC's has attracted the most attention because of the high regard which its author, Mr Nick Pink, is held in by fund managers and because of the bank's close involvement in the government's privatisation programme over the years.

UK NEWS DIGEST

## US regulators warm to deal

Lloyd's of London last night appeared close to a deal with American state securities regulators over legal action in the US which threatens to undermine the insurance market's recovery plan. A delegation led by Mr Philip Feigin, Colorado securities regulator, has returned to the US for Independence day. But Mr Feigin said in a statement: "We plan to continue to meet again next week, with the goal of resolving this matter by July 15."

Further boosting optimism at Lloyd's, Mr Feigin is understood to have given assurances that Colorado Names could underwrite at Lloyd's next year. Names are individuals whose assets have traditionally supported Lloyd's.

Last week, Lloyd's warned action by the regulators, who believe investment in Lloyd's might have been mis-sold, would force the exclusion of many US Names.

Meanwhile, the 550-strong Poland Names Association, meeting in London, voted unanimously to accept the Lloyd's recovery plan. It also agreed to drop legal action for damages after losses incurred largely as a result of US asbestosis claims. The association is the latest Names group formally to support the plan, which includes a £3.1bn ($4.74bn) out-of-court settlement offer." *Ralph Atkins, Insurance Correspondent*

## Settlement upgrade backed

The Bank of England is backing upgrades to the UK's securities settlement systems that would sharply reduce the risk of payment defaults. The Bank is setting up a City working group to examine how to move settlement systems such as the Central Gilts Office, which settles £85bn ($130bn) a day of government bond deals, to "delivery versus payment," in which the transfer of the security would be synchronised with the transfer of cash to pay for them.

A move to full delivery versus payment was broached by the Bank yesterday at a meeting of the City Promotion Panel, a forum set up by the chancellor of the exchequer to discuss strategic issues for the UK financial services industry. *George Graham, Banking Correspondent*

## Interest rate hold expected

Mr Kenneth Clarke, the chancellor of the exchequer, met Mr Eddie George, governor of the Bank of England, yesterday for their monthly interest rate discussion. The consensus among economists is that the chancellor decided to leave rates on hold at 5.75 per cent after the meeting although rates could still be cut before their next meeting. Analysts said a reduction in rates was possible since a cut might help stimulate flagging manufacturing industry and offset the strength of the pound this year. *Graham Bowley, London*

## Hope for Leyland-Daf creditors

Unsecured creditors of Leyland-Daf, the UK arm of the Netherlands-based commercial vehicles group which collapsed in 1993, may be moving closer to recovering some of their funds after a decision by British receivers to propose a voluntary liquidation.

The move, to be discussed at a creditors' meeting on 24 July reflects the receivers' success in realising up to £160m ($245m) in asset sales since the company collapsed.

The asset sales have meant secured creditors have received about £110m, while preferential creditors have recovered part of the £11m owed. Any disbursement of the approximately £50m balance will depend, however, on the outcome of a court case brought in the Netherlands by former Daf bondholders. *Haig Simonian, Motor Industry Correspondent*

## Stone of Scone for Scotland

The government yesterday announced surprise plans to return the Stone of Scone to Scotland, 700 years after the symbolically important relic was stolen by King Edward I of England.

The return of the stone, which currently sits in Westminster Abbey, coincides with a fierce government attack against the opposition Labour party's plans for a separate Scottish parliament with tax-raising powers.

Mr Tony Blair, the Labour leader, welcomed the move but other opposition politicians dismissed it as a "gimmick". The government denied suggestions that the stone was a fake and said it had been scientifically authenticated following its theft and recovery in the early 1950s. *David Wighton, Westminster*

## Arts sponsorship praised

A ceremony honouring companies which had made significant contributions to arts sponsorship during 1995-96 was held in London last night. Leading businessmen and the managers of the UK's main arts companies mingled for the FT/ABSA Awards for Business and the Arts. This is the first time the Financial Times has sponsored the ABSA Awards; they help to prove to sceptical directors and shareholders that supporting the arts is economically and socially worthwhile.

The award for the best strategic programme, using the arts most effectively as part of an overall marketing plan, went to British Telecom, which spends £2m ($3.1m) a year supporting established arts companies such as Northern Ballet Theatre, and community arts ventures.

The best single project prize went to Glaxo Wellcome for sponsoring an exhibition of Spanish Still Life at the National Gallery; the long-term development prize was secured by Amoco, which has supported Welsh National Opera for 17 years; the international sponsorship award went to Roche Products for its assistance to Oxford Orchestra Da Camera; and the best first-time sponsor was judged to be Lilt, the soft drink producer, which successfully associated with the Notting Hill Carnival. *Antony Thorncroft, London*

Editorial Comment

# Fund managers signal top research houses

By Nicholas Denton

Warburg dropped from first to third place in the Extel rankings for the quality of its investment research in the year since the UK investment bank was taken over by Swiss Bank Corporation, it was announced yesterday.

Its research effort into mainland Europe – which last year lost the head of department and other staff to Deutsche Morgan Grenfell – suffered the most serious setback to reputation among fund managers. SBC Warburg did not comment.

Warburg was supplanted as the leading research house by NatWest Securities, the division of National Westminster Bank, according to the 107 leading fund managers surveyed by Extel, which is published by Financial Times Information.

A NatWest oil analyst, Mr Fergus Macleod, carried off the award for the top individual analyst.

HSBC's James Capel, rose two notches to second place in the research house rankings, restoring much of the reputation which led the stockbroker to dominate the rankings throughout the 1980s.

The results appeared to show fund managers valued those research houses which put them ahead of the corporate financiers and market makers within investment banks which compete for analysts' attention.

UBS, the Swiss bank which acquired Philips & Drew, rose the most through the ranks of research houses to gain fourth place. Its share of fund managers' votes rose from 8.3 to 9.9 per cent. BZW, part of Barclays Bank, dropped back, as did Kleinwort Benson Securities.

●

A traditional, independent UK merchant bank was the leading adviser on mergers and acquisitions within the UK in the first half of the year, despite the growing consensus in favour of integrated banking and securities operation.

Lazard Brothers, which specialises in giving advice, was the most active M&A house with £7.2bn ($11bn) worth of deals in the UK in the first six months, according to Acquisitions Monthly, the magazine and database publisher.

The bank, which is linked to Lazard Freres & Cie in Paris and Lazard Freres in New York, came top in the UK league tables in the most active half year seen in the UK M&A market: the 729 acquisitions in the period were worth a total of £27.3bn. Investment bankers say the frenetic pace is continuing, but they expect a fall-off in the event of a Labour election victory.

While many investment banks believe they have to offer a wide range of services and products to clients, the Lazard houses have held their leading positions in the M&A market by offering advice they claim is purer than competitors'.

N.M. Rothschild, Hambros Bank and Schroders, three other UK houses which eschew large equities operations, also made the top ten. But Baring Brothers, which remains a traditional UK adviser despite being part of the ING group, dropped back after an exceptionally strong 1995.

However, the global league tables compiled by Securities Data show a very different ranking: Morgan Stanley was the leading adviser having advised on $112bn worth of deals, followed by Goldman Sachs with $85bn. Lazard Houses were sixth with $49bn.

# Rail company writes off £500m freight investment

By Charles Batchelor, Transport Correspondent

British Rail has written off £500m ($765m) on its investment in Channel tunnel freight services because it does not see it making money in the foreseeable future, the company said in its annual report published yesterday.

Apart from this setback in freight, BR's last year as a substantial provider of rail services was a positive one, with increases in passenger ticket revenues and success in holding down costs, Mr John Welsby, chairman, said.

He also expressed optimism about the future of the railway under the new regime which has been put in place. "The railway industry structure that is now beginning to operate has a firmer financial basis than existed at any time in the history of the nationalised railway," he said.

Labour has promised to revitalise BR if it comes to power but how this would work in practice is unclear and at the current rate of disposals, BR is likely to be reduced to a small headquarters staff over the next nine months.

The provision for freight losses and the loss of income which resulted from the sale of businesses reduced operating profit to £14m from £571m, although the upheavals at BR meant the two years were not comparable.

Railfreight Distribution, the company which runs Channel tunnel freight services, was put up for sale last month with the promise of large write-offs to make it more saleable. The £500m write-off in BR's accounts consists of £300m of investments in rolling stock and terminals and further £200m to cover the minimum usage charge of £20m a year payable to Eurotunnel, operator of the Channel tunnel, over the next 10 years.

Freight services have been growing but are less than half of the 6m tonnes a year which were forecast before the tunnel opened.

**The RMT transport union is to ballot conductors for strike action among 13 of the UK's rail operating companies. The ballot announcement followed the second of four 24-hour strikes on the London Underground, which disrupted services yesterday for the second week running. The strike by members of Aslef, the train drivers' union, over working conditions meant that only about one in four scheduled trains were being run. Further one-day strikes are planned for July 8 and July 16.**

**The RMT ballots, to be held in two weeks' time among 9,000 conductors and on-train catering staff, are the culmination of a long-running dispute over job content, break entitlements and productivity rewards.**



# Farmers to contest cull compensation

By Alison Maitland

Farmers were last night preparing for a battle with the Treasury over compensation for the selective slaughter of up to 120,000 cattle after the agriculture ministry left open how payments would be calculated.

"We're preparing to make very strong representations to the Treasury," said Mr Richard Macdonald, director-general of the National Farmers' Union, which is strongly opposed to the cull. "It is extremely important that it is based on the replacement value of the animal [rather than its market value] because people who are affected shouldn't be penalised."

The slaughter scheme will target between 100,000 and 120,000 cattle aged between three and seven years that are considered most at risk of developing BSE because they ate the same feed as confirmed BSE cases. About 2,500 herds are likely to be affected.

It is one of the most important measures the government must take to win the agreement of the European Commission and EU member states for a phased lifting of the export ban on British beef.

Replacement value would cost considerably more than compensation at current depressed market values because young replacement cows would be more valuable than the older cattle being slaughtered and would be in strong demand.

In a consultation document published yesterday on the slaughter, the government reflected its internal wrangle over compensation, expressing fears that some farmers might be "over-compensated." Treasury concern is believed to have contributed to the delay in publishing the paper, originally due on Monday.

Mr Tony Baldry, junior agriculture minister, said the government wished to be fair. But he added: "I do not think it would be right or proper for there to be a scintilla of a suggestion that the government had bought off the farming community to get this through the House of Commons."

● EU regulations on production of meat and bonemeal are to be toughened next year to ensure processing destroys the agents that cause scrapie and BSE, or "mad cow" disease, after veterinary experts backed a European Commission proposal, Neil Buckely writes from Brussels.

The Commission insisted yesterday that existing rendering regulations, imposed in 1994, were safe, although it had decided to strengthen them in line with the latest scientific advice. But research so far unpublished has suggested existing procedures do not always destroy prions, the agents that cause scrapie and BSE.

# Opposition party maps its route to the election

## The policies of new-styled Labour have met with mixed reactions

Tony Blair's policies are considered both feeble and dangerous

By John Kampfner, Chief Political Correspondent

Mr Tony Blair, leader of the opposition Labour party, might have been excused if he had chuckled. The policies of New Labour – as the Conservatives acknowledge his party should now be called – are considered feeble and dangerous at the same time. The interpretation depends on whether the critic is a Conservative or a Labour leftwinger.

Launching the Conservatives' counter-offensive against Labour's impending "Road to the Manifesto" document, Mr Brian Mawhinney, the party chairman, derided New Labour as a creation of Mr Blair's public relations advisers. "It is designed to convince people that Labour's new policies are safer than their old ones. They may be new, but they are in many ways more dangerous," he said.

The document is to be published today, and the next general election must be held by the end of May next year. Opinion polls consistently suggest that Mr Blair's party will return to power for the first time since it was first defeated by the Conservatives under Mrs Margaret Thatcher in 1979.

The "New Labour – New Danger" slogan will be difficult for the present Conservative government to sustain. The Tories are having to devote considerable energies to sowing doubt in the minds of those voters who now believe that Labour no longer poses a threat to traditional Conservative strongholds in what is often called Middle England.

The Conservatives have called their "alternative" to Labour's pre-election mission statement "The Road to Ruin". It amounts to 24,000 words, or more than twice as many as the real Road to the Manifesto. The Tory version uses a mixture of selective quotes from Labour spokesmen and a parody of what their statements are supposed to mean. On Europe, the mock document says: "New Labour thinks it is far better for decisions about our employment policy to be made in Brussels. We also believe that all British social policy should be negotiated with the European TUC [Trades Union Congress]."

For all the Conservatives' attempts to portray the real Labour document as radical, it will be as conspicuous for what it omits as what it contains. Underlying the constraints is the commitment by Mr Blair, rammed home to each Labour front bench team by Mr Gordon Brown, the party's shadow chancellor of the exchequer, that their budgets will be pegged to existing levels when in government.

As the Tories point out, Labour has refused to make any reference to tax rates. The only commitment to increase taxation is the windfall tax on privatised utilities, which will fund Mr Brown's "welfare to work" training schemes.

Among other policies propagated by the Labour party in 1992, the year of the last general election, and since dropped or watered down, are:

● This year, Labour dropped its pledge to renationalise the Railtrack infrastructure company, calling instead for tougher regulation.

● Labour had vowed to set a statutory minimum wage with an hourly rate of £3.40 ($5.20). Now the issue will be put to a commission on low pay, with many teenage workers exempt.

● Employers will be forced to recognise trade unions only if a majority of the workforce votes for it. Most of the present government's legislation, widely condemned by unions, will be retained.

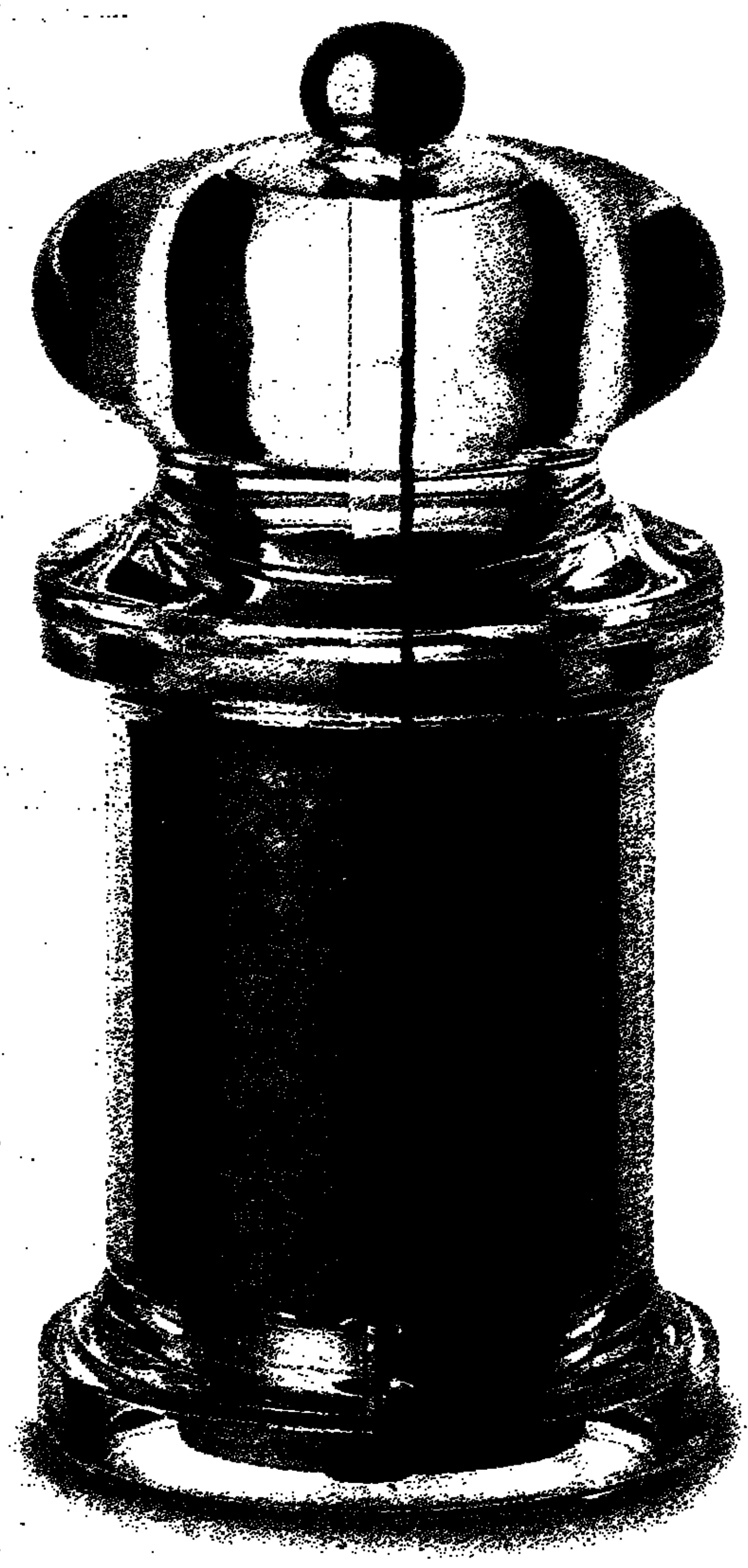
● Fundholding by family doctors in the state health service will no longer be scrapped, and trust hospitals will no longer be returned to health authority control. Fundholding and the creation of trust hospitals are central features of the Conservatives' health service reforms.

● An increase in the basic state pension has been ruled out.

● Some constitutional reforms are still in place, such as abolition of voting rights for hereditary lords in the House of Lords, the unelected upper House of Parliament. But the party's plan for a tax-raising Scottish parliament and a lesser Welsh assembly is now contingent on a referendum in both countries. Elected regional assemblies for England will be established only where there is popular demand.

SECOND-HAND TOBACCO SMOKE IN PERSPECTIVE

# Life always involves some risks. You need to decide which ones are important.



Almost every day, it seems that one thing or another has been discovered to be some kind of health risk.

In one scientific study, even pepper was reported as being life threatening.

But as common sense suggests (and scientists *confirm*) not everything described statistically as a risk is a meaningful risk.

For example, lots of people have been persuaded that second-hand tobacco smoke is harmful.

Not surprising, perhaps.

After all, we recognise that smoking itself is a risk factor for certain human diseases and that some people find second-hand tobacco smoke unappealing and unpleasant.

But what about second-hand tobacco smoke? Is it really a meaningful health risk to people who've chosen not to smoke?

Not, we think, if you look at the evidence.

The United States Environmental Protection Agency recently conducted a major review of studies on the risks of second-hand tobacco smoke to non-smokers. These studies typically involve non-smokers living with smokers over a long period, such as 20 years.

And this review put the risk of lung cancer from second-hand tobacco smoke at a level well below the risk reported by other studies for many everyday items and activities.

And below, in fact, the risk to health that one other study reported for eating pepper frequently.

As the table below shows, many everyday activities have been statistically associated at one time or another with apparent risks to health.

But reputable scientists say that weak associations aren't necessarily meaningful.

So there's no big campaign to persuade you to give up pepper.

Nor is there any sound justification for a campaign against second-hand tobacco smoke.

If you'd like to decide for yourself, please write to us at Philip Morris Europe S.A., c/o P.O. Box 107, 1000 AC Amsterdam, The Netherlands or fax us on 00 31 20 671 98 89 or access us on: http://pminfo.yrams.nl

We'll send you the evidence about second-hand smoke.

We believe you'll find the case convincing.

Associated with additional risk

Weak association with risk

Associated with reduced risk

| Everyday Activities | Reported Relative Risk* | Reported Health Effect | Scientific Study Reference |
|---|---|---|---|
| Diet highest in saturated fat | 6.14 | Lung cancer | Journal of the National Cancer Institute, Vol. 85, p.1906 (1993) |
| Non-vegetarian v vegetarian diet | 3.08 | Heart disease | American Journal of Clinical Nutrition, Vol. 31, p. S191 (1978) |
| Frequently cooking with rapeseed oil | 2.80 | Lung cancer | International Journal of Cancer, Vol. 40, p. 604 (1987) |
| Drinking 1-2 glasses of whole milk per day | 1.62 | Lung cancer | International Journal of Cancer, Vol. 43, p. 608 (1989) |
| Eating one biscuit a day | 1.49 | Heart disease | Lancet, Vol. 341, p. 581 (1993) |
| Drinking chlorinated water | 1.38 | Rectal cancer | American Journal of Public Health, Vol. 82, p. 955 (1992) |
| Eating pepper frequently | 1.30 | Mortality | American Journal of Epidemiology, Vol. 119, p. 775 (1984) |
| Exposure to second-hand tobacco smoke | 1.19 | Lung cancer | U.S. Environmental Protection Agency (1992) |
| High vegetable diet | 0.37 | Lung cancer | International Journal of Epidemiology, Vol. 25, Suppl. 1, p. 32 (1996) |
| High fruit diet | 0.31 | Lung cancer | American Journal of Epidemiology, Vol. 133, p. 683 (1991) |

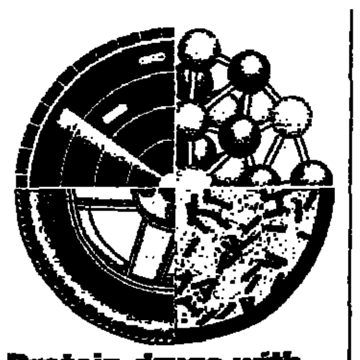
*Relative risk measures how much consuming, or being exposed to something, raises or lowers risk.
According to the US National Cancer Institute... "In epidemiologic research, relative risks of less than 2 are considered small and are usually difficult to interpret. Such increases may be due to chance, statistical bias, or effects of confounding factors that are sometimes not evident."

## Philip Morris Europe S.A.

**Second-hand tobacco smoke. Let's keep a sense of perspective.**

# TECHNOLOGY

## Worth Watching · Vanessa Houlder



### Protein drugs with less pain

Anyone who receives medical treatment with protein-based drugs has to suffer the pain and inconvenience of daily injections. Until now, there has been no way of packaging large molecules, such as proteins, so that they can be released slowly inside the body.

Scientists working for Alkermes in Massachusetts and Genentech in California believe they are close to solving the problem by designing an injectable sustained-release form of human growth factor, a protein.

The main problem they had to overcome was that the protein's delicate structure is damaged by the processes normally used to pack molecules into "controlled release" systems. The scientists found a way to stabilise the proteins by forming a complex with zinc; then a biodegradable polymer encapsulated the substance in small microspheres.

Tests on monkeys showed that the microspheres of human growth hormone could be released slowly over a period of at least a month, according to a report in this week's Nature Medicine. The US Food and Drug Administration has approved the first stage of human trials on the process. The researchers believe that other proteins could be administered in a similar fashion.

*Alkermes: US, tel 617 494 0171; fax 617 494 9255.*

### E-mail for faxes and voice messages

Internet users can now use their e-mail addresses to receive faxes and voice messages.

Jfax, based in New York, has launched a service that allows faxes and voice messages to be digitised, compressed and forwarded across the Internet as an e-mail attachment. One advantage is that it does not require a dedicated phone line or for the computer to be permanently switched on. Faxes and voice messages are stored, on the Internet service provider's server until downloaded. It also makes it easier for a company to do business in other countries by allowing them to use a domestic number as their fax number.

Jfax has formed a partnership with Easynet, the UK Internet service provider in the UK. The service will cost £8 a month, plus a connection charge of £9.80. The first 100 fax pages or voice messages are free, after which they cost 15p per page or message.

*Jfax: US, tel 212 4313533; fax 212 2534000.*

### Cheaper alternative for sorting plastics

Plastics must be sorted before they can be recycled, but few companies disposing of plastic waste can afford the cost of installing sorting equipment.

A cheaper option may be offered by a mobile machine, launched this week, that can identify types of plastic.

The system, developed by engineers at the University of Southampton, uses an infra-red scanning unit in conjunction with a database of all commonly used plastics. The Portasort service is supplied by Intex Logistics of Petersfield.

*University of Southampton: UK, tel 44 (0)1703 593807; fax 44 (0)1703 593285.*

### Keeping air out and flavour in

Airtight packaging rarely lives up to its name. Water and oxygen often diffuse inside while volatile flavourings leak out. But scientists at the Fraunhofer Institute for Silicate Research in Würzburg, Germany think they have come up with a superior impermeable coating, based on hybrid organic and inorganic polymers.

These are synthesised using the "sol/gel" process, in which solids are dispersed in a solution and the liquid removed to form a gel. The polymers, known as ormocers, were found to be far less permeable to water vapour, oxygen or volatile flavourings than conventional materials.

*Fraunhofer Institute for Silicate Research: Germany, tel 499314100502; fax 499314100698.*

Closer contact: freight groups seek an improved tracking system for Channel tunnel freight trains

# Track records

## European rail operators are keen to adopt systems that monitor freight train movements, reports Mark Ward

Delivering freight by rail across Europe is a little like sending your children off to university. You never know where they are or what they are doing – but you assume the worst – and they may never come home again. All you get back are bills, the occasional progress report or, if you are really unlucky, a visit from the police.

Few parents would consider fixing electronic tags to their offspring but rail operators and freight firms are now developing systems to track trains and cargoes. A debate is developing about which system should be adopted widely but the technology will give both customers and companies a better idea of where their goods are and what is happening to them.

Whether the cargo being moved is in containers or refrigerated wagons, information available at the moment is pretty scant. Research into this area by trade associations produces comments such as: "There is no overview and supervision of transit. There is no tracking system, and consequently no information."

Although the details of every freight train and the route it is taking are entered into Hermes, the European rail operators' computer system, it is not updated in real time. The only time anyone knows the definite location of a train is when it crosses a frontier, enters a marshalling yard or passes through an important rail junction.

At a national level where a load takes hours rather than days to reach its destination, this may be enough, but on a European scale much more timely information is needed. A container going missing between Manchester and Milan could be in any one of 300 places, says Ray State, British Rail Business Systems' development manager.

He says another problem with Hermes is that information is fed in manually. Mistakes can occur as rail workers with different native tongues key in details about the load they have just inspected. Documents that travel with the train can also become soiled or lost.

"It would be comforting to know which country the load is in to see if there is going to be any delay in its arrival," State says.

Apart from comfort, another reason why rail and freight operators need to know the location of their trains is that it will help them compete. "We want to be able to offer the same quality of service as a road-only operator," says Chris Nichols, spokesman for the Rail Freight Group, a UK trade association that represents companies dispatching goods to the Continent by rail.

He says companies moving freight by rail have a tougher time finding out where the goods are because of the number of different organisations involved. Road haulage firms have a much easier time. "A road-only operator can simply call the driver of the lorry and then tell the customer where their goods are," he says.

The central problem for rail and freight firms is that trains are dumb. They cannot tell where they are or if their load is intact. But there are moves afoot to make them a lot smarter.

The Rail Freight Group and its sister organisation, the British International Freight Association, have formed the Alliance for Channel Tunnel Railfreight which is pushing for improvements in the way goods are moved through the tunnel. One of its objectives is to improve train tracking systems.

The alliance has applied to the European Commission for what is known as Pact (Pilot Action for Combined Transport) funding. If the application for Ecu1m (£800,000) is successful, the money will be used to install a pilot tracking system along the route between Manchester and Navarro in Italy. Nichols believes the alliance has a good chance of getting the money because a couple of years ago it won similar funding for a different project that will allow rail operators to carry lorries on their trains.

The alliance intends to adopt the system approved by the Union Internationale de Chemin de Fer (UIC), the Europe-wide body that represents rail operators. The technology was developed by Alcatel Amtec and involves transponders placed between the rails at strategic points such as the exit from the Channel Tunnel, national boundaries and large marshalling yards.

On the train would be an electronic tag identifying the wagon, what cargo it is carrying and where it is heading. The transponders would pick up the information from the passing train and then use conventional telephone networks to let rail operators know where the train is. The protocols for passing this data around via the Hermes network are already established and will not rely on anyone on the ground intervening, a situation that should make the process of receiving information more reliable.

Although the UIC has approved the Alcatel Amtec system, it cannot provide funds for the transponders, radio tags and links. Take-up of the technology is on a voluntary basis and only France and Switzerland have said they will implement the system for specific traffic. In the US, automatic tracking and identification of freight has been mandatory for a couple of years.

Ray State does not think the UIC system will be widely adopted. "There will have to be some form of fixed infrastructure," he says. "But because many European countries are not awash with money, they see fixed installations as optional."

The fact it is discretionary means it is unlikely ever to be anything more than a piecemeal system. "What is needed is for the container to talk to its carrying vehicle and for that vehicle to talk to a base station totally free of infrastructure," says State. British Rail Business Systems is considering a cheap way to do that using existing communications systems.

All European rail firms make extensive use of radio to keep in touch with drivers and pass on information about what is coming down the line. The system dreamt up by State and his team links all wagons in a freight train and makes them report regularly on their whereabouts and that the whole load is intact. A black box on the train uses global positioning satellites to fix its location.

State considered putting satellite links on the trains but soon dismissed the idea. He says: "A train with a great dish on the top is not an option."

He believes that because the system could use existing infrastructure and would need only a modest investment to equip wagons and containers, it should have a good chance of being adopted. Eventually it may only be British freight trains that know where they are going.

*Mark Ward writes for New Scientist.*

# R&D plans in Europe

The European Union's Fourth Framework Programme for Research and Development is halfway through its four-year life – and scientists and governments are thinking about the Fifth Framework Programme that is expected to begin late in 1998.

This week the European Science Foundation, which brings together 59 research-funding organisations throughout Europe, publishes its proposals. It argues for a reinvigorated EU commitment to science, with a research agenda built around five broad themes:

- Information and communications technology – focusing on more sophisticated techniques for using information and on the impact of IT on society;
- Industrial technologies for complex systems and products – focusing on advanced engineering and materials science;
- Molecular mechanisms in life and health – focusing on structural biology and exploiting rather than accumulating genetic information;
- Sustaining our environment – focusing on the sustainable use of resources, environmental management and environment and health;
- Change and stability in European society – focusing on driving forces of the economy, building European institutions, personal mobility, households and lifestyles.

In addition to these central themes, the ESF recommends ways to build European research capacity. Its paper, entitled Beyond Framework Programme IV, makes specific proposals for pooling research expertise more effectively, for improving scientific training and for running joint European research facilities.

Last month, several European governments put forward their preliminary views on the Fifth Framework Programme. The UK, Germany and France want it to focus on industrial competitiveness and to have a more streamlined management structure, with fewer specific programmes than the 17 in the Fourth Programme.

Meanwhile the Ecu13.1bn (£10.3bn) Fourth Programme continues to issue new calls for research proposals. The table below, updated every three months in the FT, is a guide for companies and universities interested in taking part.

**Clive Cookson**









## EUROPEAN UNION RESEARCH AND TECHNOLOGY GRANTS

| | Date/OJ Reference | Due date | Value Ecu m | DG | Contact fax/e-mail |
|---|---|---|---|---|---|
| **Information Technology (ESPRIT)** | various open calls 17.9.96 | 15.9.96 | 2035 | III | Mrs Garda Colling +32-2-296.83.88 esprit@dg3.cec.be |
| Software; components & sub-systems; multimedia; high-performance computing; business process technologies; manufacturing integration | | | | | |
| **Telematics Applications** | 15.9.95/C240 | 15.6.96 | 898 | XIII | +352-4301.340.79 & +32-2-295.23.54 telematics@dg13.cec.be |
| Administration; transport; urban & rural areas; education & training; healthcare; environment; libraries; language and information engineering. | | | | | |
| **Advanced Communications Technologies & Services (ACTS)** | no open calls | | 671 | XIII | ACTS Central Office +32-2-295.06.54 aco@postman.dg13.cec.be |
| Interactive digital multimedia; photonics; high-speed networking; mobility & personal communications networks; network intelligence. | | | | | |
| **Industrial & Materials Technologies (BRITE-EURAM)** | 15.12.94/C357 15.12.95/C337 | 16.12.96-17.12.97 25.5.96 | 1722 | XII | Help line +32-2-295.80.46 |
| Production technologies; materials & technologies for product innovation; technologies for transport. | | | | | |
| **Standards Measurements and Testing (SMT)** | 15.12.94/C357 15.6.95/C148 15.6.96/C171 | 15.3.95-17.12.97 15.11.95-15.11.97 28.11.96 | 184 | XII | Mr Pierre Mériguet +32-2-295.80.72 |
| Measurements for Quality European Products; standards & technical support; measurements related to needs of society. | | | | | |
| **Environment and Climate** | 17.1.95/C12 & 15.6.95/C148 15.12.95/C337 17.9.96 | 27.3.97 (SMEs) 20.8.96 15.1.97 | 566.5 | XII | Space technology +32-2-296.05.88 Other areas +32-2-296.30.24 |
| Environmental quality & global change; environmental technology; space techniques for environmental monitoring & research; sustainable development | | | | | |
| **Marine Science and Technology (MAST III)** | 15.12.94/C357 15.12.95/C337 15.3.96/C75 16.4.96/C110 | 11.6.97 & 17.12.97 3.96-8.96 (training) 27.6.97,12.6.98 15.10.96 & 15.1.97 | 243 | XII | Mr Jean Boissonnes +32-2-296.30.24 |
| Marine science; strategic marine research; marine technology. | | | | | |
| **Biotechnology** | 15.12.95/C337 15.6.96/C171 | 3.96-7.98 (training) 18.10.96 & 11.96-7.98 | 588 | XII | Mr Alfredo Aguilar +32-2-295.53.65 |
| Cell factories; genome analysis; cell communications in neurosciences; immunology and vaccines; structural biology; biodiversity; social acceptance. | | | | | |
| **Biomedicine and Health** | 17.1.95/C12 17.9.96 | 31.3.96-31.12.97 (fellowships) 17.12.96 | 358 | XII | Mr Alain Vanvossel +32-2-295.53.65 |
| Pharmaceuticals; biomedical technology & engineering; brain research; human genome research; public health; biomedical ethics. | | | | | |
| **Agriculture and Fisheries (FAIR)** | 15.12.94/C357 15.6.96/C171 | 12.6.96 & 11.6.97 (SMEs) 1996/7 (fellowships) 20.9.96 | 646.5 | XII | Mr Xabier Goenaga +32-2-296.43.22 |
| Integrated production & processing chains; nutritious foods; agriculture, forestry & rural development; fisheries & aquaculture. | | | | | |
| **Non-nuclear energy (JOULE-THERMIE)** | 15.12.94/C357 15.6.96/C171 15.9.96 (RTD) | 17.12.97 (demo) 9.96-7.98 (training) 1.97 | 1030 | XII XVII | Mr Michel Poireau (R&D) +32-2-295.06.56 Mr Wiepke Folkertsma (Demonstration) +32-2-295.05.77 |
| Strategy; rational energy use; renewable sources; fossil fuels; energy technology dissemination. | | | | | |
| **Nuclear fission safety** | 17.1.95/C12 15.12.95/C337 | 1.11.97 modifies previous call | 170.5 | XII | Radiation protection +32-2-296.62.56 All other areas +32-2-295.49.91 |
| Innovative approaches; reactor safety & severe accidents; radioactive waste management, disposal & decommissioning; impact on man & environment. | | | | | |
| **Transport** | no open calls 15.12.96 | 15.3.97 | 256 | VII | Mr Wilhelmus Blonk +32-2-296.83.56 |
| Strategy; rail; integrated transport chains; air; urban; water-borne; road. | | | | | |
| **Targeted Socio-Economic Research (TSER)** | No open calls 15.9.96 | | 112 | XII | Mr Stephan Parker +32-2-296.21.37 |
| Evaluation of science & technology policy options; education & training; social integration & exclusion. | | | | | |
| **International Cooperation (INCO)** | 15.2.95/C38 15.3.96/C75 & 18.4.96/C113 | grants 3.96 - 3.98 12.9.96 (developing countries) | 575 | XII | Developing countries +32-2-296.62.52 Central/Eastern Europe +32-2-296.33.06 EEA, EUREKA +32-2-296.42.89 |
| Central & Eastern Europe; other industrialised countries; developing countries. | | | | | |
| **Dissemination & application of results (INNOVATION)** | 15.9.95/C240 15.12.95/C337 | 15.12.96 15.3.96 - 16.9.96 | 312 | XIII | Mr Robin Miège +352-4301.34544 Mr Jean-Noël Durvy +352-4301.34129 |
| Technology validation; technology transfer. | | | | | |
| **Training & Mobility of Researchers (TMR)** | 15.6.96/C171 | 30.9.98 | 792 | XII | Mr Dreux de Nettancourt +32-2-295.89.95 |
| Research networks; access to large-scale facilities; training through research; conferences & summer schools. | | | | | |

The table above shows the status of all 17 programmes that distribute R&D grants within the EU Fourth Framework Programme. The name of each programme (and acronym, if any) is on the left in bold type, with a brief list of its main research areas beneath.
The next column gives the date(s) on which the EU Official Journal has published a "call for proposals" for the programme, with the reference number of the journal. Dates without a reference number show when the future calls are scheduled.
The "due date" column gives the main deadline for submitting project proposals. Some calls have different due dates for different activities. The total budget of the programme over five years is given in millions of Ecu, followed by the number of the directorate-general responsible for it.
Finally, there is a contact name (where available) and fax number in Brussels or Luxembourg. For further information look for DG XII's pages on the EC's Europe web site at http://europa.eu.int/en/comm.html.

ARTS

Cinema/Nigel Andrews

# The sublime mixed with the ridiculous

MISSION: IMPOSSIBLE
**Brian De Palma**

DEAD MAN
**Jim Jarmusch**

WILD BILL
**Walter Hill**

THE GODFATHER
**Francis Ford Coppola**

Never minds spies, poisoned hypodermics and the schemes of men with funny accents to take over the world. The real "mission impossible" in the so-named 1960s television series was for any story to live up to composer Lalo Schifrin's introductory theme tune. Each week this took the human ear and subjected it to clinical trauma. Thumped at by drums and shrieked at by jazzy trumpets, the viewer finally cried "All right, I give up, I did it!": only to realise that the plot had not even begun.

Schifrin's music is pumped out again in *Mission: Impossible* the movie. But this time the plot and pictures are strong enough to answer back. In the first film from Tom Cruise's own production company, directed at full tilt by Brian De Palma (and then some), Hollywood's hero-superbrat wears several faces as well as his own as a disguise-skilled superspy for the IMF. This is not the dastardly organisation that turned Denis Healey back at London Airport all those world economic crises ago, but the similarly acronym'd "Impossible Missions Force".

Cruise's mission is to expose the mole who caused the deaths of his colleagues in an embassy ambush in middle Europe. Emilio Estevez is impaled in a lift shaft, Kristin Scott Thomas is stabbed with an exotic dagger and Jon Voight – well, you get the picture. All that they were attempting to do was to stop a top Russian spy passing on a list of key western agents.

So off we go. As well as finding the villain, Cruise must prove he is not the mole himself: a multiple-jeopardy task that involves hanging from a wire in a CIA strongroom, surviving a bombed Czech cafe whose design motif is built-in fish-tanks (they explode, hurtling startled goldfish into the Prague night), dating Emmanuelle Béart (who spent weeks, we are told, on her English accent, to be given only some three charmingly incomprehensible lines here) and meeting a Vanessa Redgrave wearing copper-rinse hair and blue contact lenses and appearing to enjoy herself hugely.

"Who are you and what are you doing here?" she coos at Cruise, just as we were about to put the same question to her. Cruise realises that she is "Max", an important arms dealer and villainess, and that she will almost certainly be on the same train as he when, at climax time, the full-speed Eurostar hurtles through the Eurotunnel pursued by a helicopter, an army of digital visual effects and, yes, Lalo Schifrin's music.

The great advantage of action films that do not know when to stop is that one can ignore the fact that they never truly begin. No character is "established" here, no scene is "set". We are into hocus pocus from the beginning, when false walls slide away and a false corpse rises, to denote the first of many hoaxes.

Brian De Palma made *Obsession* and *Dressed To Kill* among other feature-length mirror tricks. Now, after the mission improbable of *The Bonfire Of The Vanities*, he is back to his *trompe l'oeil* peak. A spiral staircase is as queasily eyecatching as a Bridget Riley painting. A slow-motion bead of sweat hangs like a jewel from the corner of a pair of glasses (it is vital to the plot that it does not hit the floor). And vast tilted wide shots alternate with low-angle close-ups so close that they almost crack the camera lens.

The TV series is taken up hallucinogenically into the realm of Escher, Dali and D.C. Comics. The movie is at once wonderfully preposterous and almost messianically avant-garde. What is it about? It is about itself: a machine for mixing the sublime with the ridiculous and the "What next?" with the "What ever next?" When Tom Cruise meets his final Waterloo, or more precisely his 80-miles-from-Waterloo-via-Ashford, even the most popcorn-loving spectator will applaud the Dadaist perfection of the crowning image involving a train, a single helicopter blade and a semaphorically startled movie star.

★

*Dead Man* is more Dadaism, though without the fun. Or rather, writer-director Jim Jarmusch has a sense of fun but it is lugubrious and parasitic. This mock western from the maker of *Down By Law*, a mock jail thriller, and *Mystery Train*, a mock love story, proposes Johnny Depp as a diffident accountant whisked off on a cross-wilderness adventure by a friendly Indian (Gary Farmer) after Depp has accidentally crossed destinies with factory boss Robert Mitchum, killing his son over a woman.

The Indian's name is Nobody. The hero's name is William Blake. And the name for this sort of exercise is deep-penetration whimsicality. Its archness gets into one's bones. A few giggles at Jarmusch's perverse set-dressing – animal skulls littering the town's main street, Mitchum wearing hippy-length hair, a hired gunman who clasps a teddy bear in his sleeping bag – alternate with yawns at the joint-stiffening longueurs.

We assume that Jarmusch's business, as usual, is to deconstruct a genre. But deconstruction should be about alternative enlightenment, not just about drawing moustaches on sacred writ. To make the mix of elements seem more pointlessly incongruous, the cast is littered with well-known faces – Gabriel Byrne, Crispin Glover, John Hurt, Iggy Pop, Alfred Molina – none of whom seems at home either in a real western or a revisionist one.

Walter Hill's *Wild Bill* is neither of these: more a radio western with pictures. Everyone in turn speechifies at everyone else while the cameraman, not to say the audience, dies of visual malnutrition.

Jeff Bridges is Wild Bill Hickock, now losing his sight through glaucoma. Ellen Barkin is Calamity Jane, all sauciness-turned-elegiac. And they meet for a final existential stocktaking in a one-horse town in the late 1870s, while fending off hit-persons and flash-backs in roughly equal quantity.

As in Jarmusch's film many guest stars attend the reunion, including Bruce Dern, Keith Carradine and again John Hurt. (What agency is he with these days? Wells Fargo?) But again as in Jarmusch's film the tone errs on the palsied side of post-modernism, suggesting more a wake for the western than a wake-up call.

You will be pleased to know that *The Godfather*, as advertised on your posters, is not a post-modern riff on Coppola's masterpiece but the masterpiece itself. One cannot revise or reconstruct the perfect. Nor can one "revive" a film that has never been away, or even indisposed, during 25 years of rude critical health. Here is an epic made when directors had the courage to take narrative cinema seriously and the skill to persuade audiences to do the same.

Tom Cruise in 'Mission: Impossible', directed at full tilt by Brian De Palma

Musical Theatre/Alastair Macaulay

# Out of tune with Wodehouse

*By Jeeves* – a winsome collage of P.G. Wodehouse tales now billed as "the Alan Ayckbourn and Andrew Lloyd Webber musical", and revised from AA's and ALW's unsuccessful earlier 1975 version – opened Ayckbourn's new Stephen Joseph Theatre-in-the-Round in Scarborough on May 1. When Ian Shuttleworth reviewed it on this page on that occasion, he issued a note of caution about a London transfer into a conventional theatre of any appreciable size. His caution was justified. The Duke of York's Theatre is not large, but nonetheless it awkwardly exposes the considerable extent to which *By Jeeves* is a determined joke about the Stephen Joseph Theatre's incapacity to provide conventional scenery. Large parts of the show are taken up by showing us how its main story is in fact Bertie Wooster's anecdotal reminiscence within a village hall show in which he is taking part.

In a theatre-in-the-round, this pretence might be jolly enough. Behind the proscenium arch, however, it is a waste of time. I frequently loathe the kind of importance that elaborate scenery has in Lloyd Webber's more famous musicals, but here I found myself longing for some sets, just so that the story could get a move on. But no. *By Jeeves* is naggingly ironic about storytelling itself. Bertie and Jeeves are forever discussing their way with: "Jeeves, a chap can't be expected to keep up the main brunt of the narrative while making sound effect" and so forth. This is not at all P.G. Wodehouse's kind of irony. Nor is it a kind that either Ayckbourn or Lloyd Webber know how to manage.

The two men have shuffled together various Jeeves-and-Wooster stories, so that the characters soon merge into a muchness. Everyone is called Little Stiffy or Honoria Fink or Stinker Nottle-Bassett, most of them speak with very silly voices, and Bertie, climbing a ladder into the wrong bedroom, wakes up the whole household before he can steal the swag so that the Rev. Pinker can marry Stiffy. Natch. Simon Day's account of the humourless and anxious Gussie Fink-Nottle provided me with my one laugh of the evening; and, as Jeeves, Malcolm Sinclair's line in divine disdain would be, in a better context, the best since Dennis Price played the character on TV 30 years ago. But Steven Pacey's interpretation of Bertie, which dominates the evening, is a study in artificial classiness, strenuous ingratiation, and maximum dental display.

Nothing about the show feels more predictable than its music. This, despite some witty lyrics by

Alastair Muir

**Steven Pacey as Bertie**

Ayckbourn, is in Lloyd Webber's usual vein of harmless and dull pastiche. Not only does each song slow the action down, it also confers a terrible metronomic torpor upon each character. ("Half a Moment" is here the most gruesome example.) The title number and the "Hallo Song", both stale studies in English fatuity, recall the much fresher and rhythmically far wittier versions of the same thing the Gershwins did with songs like "Stiff Upper Lip" in *A Damsel in Distress* – the 1937 film musical (Fred Astaire, George Burns, Gracie Allen) for which Wodehouse himself wrote the screenplay. Wodehouse contributed to many musicals; *By Jeeves* does not hold a candle to them. It feels so familiar and so artificial that you wonder if you are awake.

**Duke of York's Theatre, WC2.**

Jazz/Garry Booth

# Oscar Peterson plays the blues

Pianist Oscar Peterson's bravura playing, his unstoppable train of ideas coupled to a one zillion horsepower rhythmic engine, has remained one of the biggest draws in live popular music for almost 40 years. But last year the 70-year-old Canadian was derailed by a stroke which, judging by Saturday's performance at the Barbican in London, has left its mark.

Since Peterson found instantaneous fame in the late-1940s with promoter Norman Granz's "Jazz At The Philharmonic" his combos – most famously with bassist Ray Brown and guitarist Herb Ellis – have set the benchmark for swinging, small-group jazz, with the leader insisting on members closely understanding each other's playing and an emphasis on the harmonic movement of his tightly written music. Linear suppleness, to go anywhere at any given time, has been the Peterson *sine qua non*.

Now, robbed of some of that physical agility – but not creativity – the pyrotechnics in Peterson's performance have been replaced by a more contemplative, measured blueness. The vitality and vigour in his playing have been tempered by depth and reflection. Though the right hand has lost none of its mercurial touch, crystalline notes streaming from the keyboard, the left, once the sender of explosive chords and a reservoir of swinging momentum, is muted.

The presence of Niels Henning Orsted Pedersen's driving, complicated bass lines and metronomic drummer Martin Drew's splashing among the cymbals went some way to recreating the old sound; and guitarist Lorne Lofsky plays Herb Ellis's part well.

But Peterson, picking through a mix of standards and originals, is a changed, albeit undiminished, artist. Some of the trademark trills, frills and intricacies remain, but the poignant simplicity of "She Has Gone", a tribute to the recently departed Ella Fitzgerald, and "We Will Love Again" revealed a sometimes sombre, meditative side to the big man's work.

Theatre/Ian Shuttleworth

# Whiff of boulevard comedy

Some four decades into his writing career, Ray Cooney has turned out his first adaptation; a case of returning the favour, really, as author Francis Veber is the French adaptor of several of Cooney's farces. *Fools Rush In* retains a whiff of boulevard comedy – the plot is grounded in the walk-out of wealthy publisher Peter Brooks' wife, and in the very final moment the promised happy resolution may have stalled – but the free hand of Cooney is evident.

Rather than being generated by an improbable chain of circumstance, the farcical goings on are here caused by a well-meaning idiot: amateur tapestry-weaver Harold Wilkinson (Dennis Waterman), whom Brooks had planned to take to a humiliating "berks' dinner" at the Garrick.

When events overtake them, Harold pitches in with a good heart and 12 left thumbs, always saying or doing the wrong thing to the wrong person: mixing up Brooks' wife and ex-girlfriend, getting carried away during role-playing telephone calls and even bringing a dryly-determined Inland Revenue inspector into an apartment largely furnished with the proceeds of tax evasion.

About the only calamity not directly attributable to Harold was the sound-effect malfunction on the first night in Richmond, leading to a self-conscious running gag every time Gerald Harper, as Brooks, had to activate the speaker system on his telephone.

Waterman relishes the chance to play such a nebbish, all Essex whine and sticking-plastered spectacles, but one can only laugh at so much berkdom before beginning to share the boredom and frustration of the characters around him. Eric Sykes makes a timely arrival as the tax inspector who, although drafted in to help track down the errant Mrs Brooks, cannot help but nose around the place. Sykes's playing is masterly; his grasp of delivery, timing and gesture lifts the comedy onto another plane, until he is ushered off all too soon by the demands of the script.

Gerald Harper and Moray Watson turn in workmanlike performances as Brooks and his friend, but feel out of place when forced to play obvious gags; the over-egged script and Cooney's own direction belie his professed view that farce is only a shadow away from tragedy. Moreover, it is tiresome to see once again the wish-fulfilment of a man in late-middle age being hounded by a vivacious young woman (the pert Mandy Perryment as Brooks' ex); in the world of farce, it seems, every ageing Hefner has his personal centrefold.

The final scene, in which truth, repentence and sentimental reconciliation gain the upper hand, is reminiscent of one of those moralising codas which so used to bedevil inferior American TV sitcoms, in which the lesson to be learnt is spelt out in capital letters.

It would be surprising if *Fools Rush In* were to become the first of Cooney's plays not to make it into the West End, but this would owe less to its merit than the fact that, like Lloyd Webber musicals, such pieces have a solid critic-proof constituency. *Resistance, alas, is futile.*

**At Richmond Theatre until July 6 (0181 940-0088).**

INTERNATIONAL ARTS GUIDE

■ **AMSTERDAM**

**CONCERT**
**Concertgebouw** Tel: 31-20-5730573
● Radio Kamerorkest: and the Groot Omroepkoor with conductor Ton Koopman, soprano Greta de Reyghere, alto Katarina Karnéus, tenor Paul Agnew and bass Peter Savidge perform Mozart's Symphony No.41 in C, K551 (Jupiter) and Mass in C minor, K427; 8.15pm; Jul 7

■ **ATHENS**

**THEATRE**
**Athens Festival** Tel: 30-1-3221360
● Electra: by Sophocles. Directed by Lydia Koniordou and performed by the National Theatre of Greece. With music by Takis Farazis and choreographed by Apostolia Papadamaki; 9pm; Jul 5, 6

■ **BERLIN**

**EXHIBITION**
**Berlinische Galerie - Martin-Gropius-Bau** Tel: 49-30-254860
● Michael Schmidt. Fotografien seit 1965: retrospective exhibition featuring photographs by Michael Schmidt (b. 1945) from 1965 to the present. The city of Berlin, in which the artist has lived all his life, plays an important role in his work; to Sep 8

■ **BONN**

**EXHIBITION**
**Kunstmuseum Bonn** Tel: 49-228-776121
● Picasso - Illustrierte Bücher: exhibition of books and book illustrations by Pablo Picasso. The approximately 100 works on display give an overview of the artist's development in this field between 1911 and 1974; to Sep 22

■ **BOSTON**

**CONCERT**
**Tanglewood Music Festival** Tel: 1-617-2661492
● Tanglewood Opening Night Celebration 1996: the Boston Symphony Orchestra with conductor Seiji Ozawa, cellist Yo-Yo Ma and the Tanglewood Festival Chorus led by John Oliver perform Bernstein's Chichester Psalms and Three Meditations for cello and orchestra, and Dvořák's Cello Concerto; 8.30pm; Jul 5

■ **CAPE TOWN**

**MUSICAL**
**Opera House** Tel: 27-21-215470
● Jesus Christ Superstar: by Lloyd-Webber. A production by the Capab Opera, with musical direction by Chari-Johan Lingenfelder. The cast includes Glenn Swart, Paul Warwick-Griffin, Neisha-Ann Harley and Graham Clark; Mon 6pm, Tue - Thu 8pm, Fri 9pm, Sat 6pm & 9pm; to Jul 20 (not Sun)

■ **CHICAGO**

**MUSICAL**
**The Goodman Theatre** Tel: 1-312-443-3800
● The House of Martin Guerre: by Arden. Directed by David Petrarca and performed by the Goodman Theatre. Soloists include Julian Molnar, Anthony Crivello and Guy Adkins; Tue - Thu 7.30pm, Fri, Sat 8pm, Sun 7.30pm; to Aug 4 (not Mon)

■ **COPENHAGEN**

**EXHIBITION**
**Statens Museum for Kunst - Royal Museum of Fine Arts** Tel: 45-33 91 21 26
● Erik Mortensen. Classic Art: exhibition combining the museum's collection of renaissance, baroque and rococo art with some 120 haute couture models by the Danish fashion designer Erik Mortensen; to Sep 1

■ **HONG KONG**

**DANCE**
**Grand Theatre/HKCC** Tel: 852-27342809
● Suchness: a choreography by Ying E. Ding, performed by the Hong Kong Dance Company. The choreography consists of five dances: The Rainbow Dharma, A Fog Cocoons, The Sea Inaugurated, A Holgy Fire-Fly and Thunder Knows; 7.30pm; Jul 5, 6 (also 3pm), 7 (3pm)

■ **LONDON**

**CONCERT**
**Wigmore Hall** Tel: 44-171-9352141
● Autralian Chamber Orchestra: with conductor Richard Tognetti and mezzo-soprano Lorraine Hunt perform works by C.P.E. Bach, Puccini, Respighi and Szymanowski; 7.30pm; Jul 5

**EXHIBITION**
**Barbican Art Gallery** Tel: 44-171-6384141
● Eve Arnold: In Retrospect/Derek Jarman: A Portrait: two exhibitions shown at the same time. Eve Arnold: In Retrospect covers the life's work to date of photographer Eve Arnold. Derek Jarman: A Portrait considers the diversity and impact of Jarman's career as an artist, film-maker, stage designer, writer, gardener and influential figure in gay politics; to Aug 18

**OPERA**
**Royal Opera House - Covent Garden** Tel: 44-171-2129234
● Giovanna d'Arco: by Verdi. Conducted by Daniele Gatti and performed by the Royal Opera. Soloists include June Anderson, Dennis O'Neill, Vladimir Chernov and John Dobson. Part of the Verdi Festival '96; 7.30pm; Jul 5

■ **LOS ANGELES**

**EXHIBITION**
**The J. Paul Getty Museum** Tel: 1-310-459-7611
● Doris Ulmann: Photography and Folklore: exhibition devoted to photographer Doris Ulmann (1882-1934). The display features 48 photographs, including portraits, landscapes, still lifes, and architectural studies that span the period from 1916 until the early 1930s; to Jul 7

■ **MUNICH**

**EXHIBITION**
**Kunsthalle der Hypo-Kulturstiftung** Tel: 49-89-224412
● Amerika - Europa: exhibition of works from the collection of Ileana and Michael Sonnabend. In the exhibition are works by American and European artists from the 1950s until today; from Jul 5 to Sep 8

■ **NEW YORK**

**EXHIBITION**
**International Center of Photography** Tel: 1-212-860-1777
● In Times of War and Peace: The Photographs of David and Peter Turnley: exhibition of over 200 works by David and Peter Turnley, who have photographed every major news event of the past 15 years; to Sep 8

■ **PARIS**

**EXHIBITION**
**Musée d'Orsay** Tel: 33-1 40 49 48 14
● Menzel (1815-1905), 'la névrose du vrai': retrospective exhibition devoted to the work of the German impressionist painter Adolph Menzel; to Jul 28

■ **STOCKHOLM**

**EXHIBITION**
**Moderna Museet - Museum of Modern Art** Tel: 46-8-6664250
● Hiroshi Sugimoto, photographs: a small retrospective exhibition, including about 50 works from the Seascapes, Nightscapes, Drive In Theatres, Theatre Interiors, Wax Cabinets and Dioramas; to Sep 22

■ **STRASBOURG**

**OPERA**
**Palais de la Musique et des Congrès** Tel: 33-88 37 67 67
● Don Pasquale: by Donizetti. Conducted by Theodor Guschlbauer and performed by the Choeurs de l'Opéra du Rhin and the Orchestre Philharmonique de Strasbourg. Soloists include Gabriel Bacquier; 8pm; Jul 5

■ **VIENNA**

**EXHIBITION**
**Museum des 20. Jahrhunderts** Tel: 43-1-7996900
● Coming Up - Young Art from Austria: exhibition focusing on up-and-coming or relatively unknown young Austrian or Austrian-based artists; to Sep 15

■ **ZURICH**

**EXHIBITION**
**Kunsthaus Zürich** Tel: 41-1-2516765
● Peter Fischli/David Weiss. Arbeiten im Dunkeln: exhibition of works by the video artists; from Jul 5 to Nov 3



**WORLD SERVICE**
BBC for Europe can be received in western Europe on medium wave 648 kHZ (463m)

**EUROPEAN CABLE AND SATELLITE BUSINESS TV**
(Central European Time)

**MONDAY TO FRIDAY**

**NBC/Super Channel:**
07.00 *FT Business Morning*
10.00 *European Money Wheel* Nonstop live coverage until 15.00 of European business and the financial markets
17.30 *Financial Times Business Tonight*

**CNBC:**
08.30 *Squawk Box*
10.00 *European Money Wheel*
18.00 *Financial Times Business Tonight*

COMMENT & ANALYSIS

Economic Viewpoint · Samuel Brittan

# The disappearing workers

**Many people in later middle age are not technically unemployed but have left the labour force altogether, increasing the fiscal burden on those who remain**

The UK unemployment statistics, while far from satisfactory, bear reasonable comparison with those of neighbouring countries. On an internationally comparable basis the unemployment percentage this April was 8.4 per cent, down 2 percentage points from the peak of the last recession. In contrast, France's jobless rate was 11.5 per cent and that of Germany 8.9 per cent. This is not to mention 12.4 per cent for Italy and 22.1 per cent for Spain.

The US did much better with a rate of 5.4 per cent, although at the expense of falling real wages at the bottom. Although Japan apparently did better still, its unemployment statistics are more than usually suspect in the aftermath of a deep recession.

Moreover, of European countries, the UK is the only one to show much improvement from the peak of the last recession. At this point a British cabinet minister would preach a sermon on the virtues of flexible labour markets and say he expected the recent improvement to continue.

He would, however, be unlikely to convince his audience that all is well with the British labour market. There are at least three reasons for concern in spite of the falling trend of unemployment. First, there are the widely expressed fears about future possible job losses and the end of lifetime careers. Second, there is the growing gap between the relatively prosperous but often tightly stretched two-earner households and households with no earners at all. Third, there is the increasing number of people of working age who are not unemployed, but who are not reported to be looking for a job. In statisticians' jargon they are known as the "economically inactive" and it is on this group that I want to concentrate today.

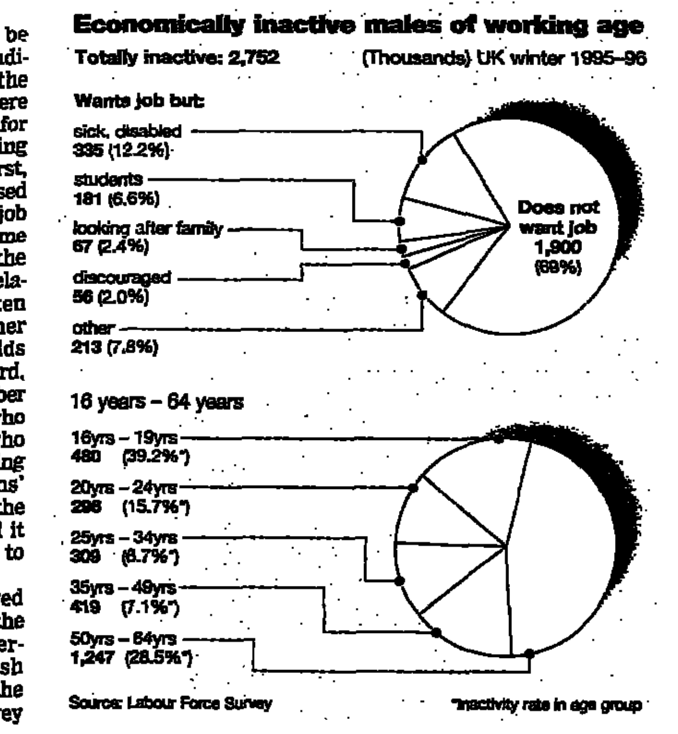
The recorded unemployed are only the visible part of the problem of the under-utilisation of the British labour force. According to the official Labour Force Survey there were 2.3m unemployed in Britain last winter. Of these, 1.6m were males of working age (defined as aged 16 to 64).

But on top of these there were 2.7m men categorised as "economically inactive". These men had not sought work in the previous four weeks; or if they had were not available to start employment soon. Thus total male non-employment, adding together the inactive and the unemployed, came to 4.2m. There were also 1.2m adult men who were only working part time.

Why concentrate on males? It is because that is where the problem lies. For traditional reasons, reflecting household division of labour, there are still more economically inactive women than men, and far more women in part-time jobs. Nevertheless, the trend has been completely different for the two sexes. Economic activity rates have been rising sharply for women while they have been falling for men. Since the early 1960s the number of male employees has fallen by the almost incredible number of nearly 4m, but the the number of female employees has *risen* by nearly 3m. The growth of male self-employment is not enough to explain more than a modest fraction of this divergence.

The problem of male inactivity is heavily concentrated among the older sections of the working age population. As the second graph shows, there are also very high inactivity rates among young people. Indeed, more than 39 per cent of the 16-to-19-year-olds are counted as inactive. But this is almost certainly due to their involvement in further education and training.

The inactivity rate drops drastically to about 7 per cent for males in the prime age bracket of 25 to 50. But it leaps to more than 28 per cent for those in the past 15 years before the conventional retirement age of 65. This group of "inactive" older men accounts for nearly 1¼m people, which is an astonishing waste of productive potential. Indeed, Tim Congdon of Lombard St Research maintains this waste is the main reason why the supply-side improvements of the Thatcher years have not translated into a more rapid national growth rate.




The first graph takes all 2¾m of the economically inactive males – not merely the older ones – and breaks them up according to the reasons they supplied to the Labour Force Survey. Some 69 per cent of those questioned said they did not want a job. The remainder say that they wanted a job but had not recently applied for one or were unable to take up employment. The most important single reason they gave was that they were sick or disabled; but presumably they would be interested if something suitable were offered. Nearly 7 per cent were students and another 2½ per cent said they were looking after a family. The interesting feature is that only a handful said that they were "discouraged" – another term meaning they did not believe they would find a job.

Unfortunately, we do not have any further breakdown suggesting how these older workers came to be without employment. As most say they are not looking for a job, the assumption must be that they have alternative sources of income. By definition they do not qualify for state unemployment benefit; and they are also too young to draw a state pension. A considerable number will have invalidity payments, despite the government's attempts to clamp down on this benefit. Some may have retired before the age of 65 on an occupational pension scheme.

We do not know how many of them have a spouse who is at work. And it goes without saying that the official statistics do not include undeclared earnings. It is, however, a matter of common sense that people who have paid off their mortgages and whose children are grown up can live on lower take-home pay than their younger fellow citizens.

The big question for the rest of us is whether older non-workers have decided to take the fruits of earlier labours, and of a rising national standard of living, in the form of leisure and do-it-yourself activities rather than paid employment. Or is it the case that the institutions and customs of the labour market give them no real stimulus to return? In that case they may not be discouraged in the statistician's sense, but are in commonsense ways.

It is no comfort that other countries waste their potential labour force even more badly than does the UK. (France has a male inactivity rate in the 55 to 64 age range of nearly 60 per cent and Germany of nearly 50 per cent.)

All western countries face to a varying extent the problems of an ageing population, involving increasing pensions payments and ever-rising medical bills. *These have to be* sustained – whatever the financing mechanism – by the efforts of citizens at work. Surely therefore systems need to be designed to encourage people to stay on at work for a longer rather than a shorter period.

All three UK party leaders have made ritual statements condemning discrimination against older workers. Howard Davies, the deputy governor of the Bank of England, criticises the sort of company that uses early retirement as a short-sighted method of reducing costs, saying: "If it has selected those who had to go on artificial criteria such as age, a great risk is that in the process it will have removed many of the very skills and knowledge on which its survival depends." (Bank of England staff can retire at 58.)

More valuable than such brave words would be action on corporate pension schemes and social security which tilt the balance against the employment of older workers and which ought to be given a tilt the other way.

BOOK REVIEW · Peter Martin

WHY THINGS BITE BACK: Technology and the Revenge Effect
By Edward Tenner
Alfred A Knopf, New York, 346pp, $26

# Lessons learned from the world's revenge

Tenner's book is a hymn to the Law of Unintended Consequences. In thousands of examples, he lists ways in which human ingenuity has produced the exact opposite of what was sought. Road improvements conjure up traffic jams; safety devices lead to hazardous complacency; helpful new crops turn into uncontrollable pests.

His argument is in part a joyous celebration of the ways in which the world is a more complex place than we realise, an interlocking system with which we tinker at our peril. In part, it is a cumulation of all the complaints of human middle-age: why *is* it that nothing ever quite works out the way it should? By juxtaposing anecdote and scientific evidence, he lends this natural cantankerousness a veneer of calm inquiry it does not entirely deserve.

The book's litany of just-fancy-that paradoxes sometimes seems endless. Why does the paperless office produce so many sheets of waste? Why does a generation of Americans in demonstrably rude good health feel so sickly? Why do forest fire precautions contribute to the blazes that they are meant to avoid?

But underneath the piles of examples, documented in 46 pages of footnotes, lie a few intriguing thoughts which bear closer scrutiny. Tenner argues that the modern world is one in which complex, tightly-interwoven social and technological systems require a constant state of attention to avoid disaster. This cannot always be provided: ultimately, people get bored. Long periods of successfully avoided disaster create precisely the conditions in which it can arise.

But most of the time disaster is relatively easy to fend off, Tenner argues, because it grabs the public attention when it does occur. The Titanic's supposedly unsinkable construction created a complacency which allowed it to run into an iceberg in 1912. So dramatic was the event, so permanently etched on the consciousness of public and seafarers alike, that no ships have been sunk by icebergs from that day to this – apart from in a single accident in 1943.

The modern world has learnt to avoid disaster, or to lessen its consequences. Both have an identical outcome: the replacement of the crisis with the chronic. Such long-running problems require management, not magic.

Antibiotics once seemed to have banished certain sorts of diseases forever. Now, new drug-resistant forms of these diseases have appeared, requiring a set of long-term responses – including a world-wide willingness to use effective treatments more sparingly in future, to preserve their efficacy as long as possible.

If Tenner rejects the blind faith in progress that was once the orthodoxy, he is nonetheless relatively optimistic about our ability collectively to learn the lessons of the world's revenge effects. He cites two ways in which we are coming to terms with the complexity of the natural, technological and social world, learning to adapt before it is too late.

One of these approaches, he says, is a retreat from intensity, from "the single-minded over-extension of a good thing" most spectacularly visible in the Soviet era's obsession with size and weight.

The waning belief in intensity is patchily evident in a whole series of industries and societies: farmers who use less fertiliser, doctors who use antibiotics more sparingly, computer users who choose not to upgrade to more powerful releases of hardware and software, sports that reject some technical innovations because they spoil the game.

A second trend is finesse, "abandoning frontal attacks for solutions that rely on some kind of latent properties that led to revenge attacks in the first place". This may mean ceasing to suppress a symptom, recognising the part that fever plays, for example, in fighting infection. It may mean "living with and even domesticating a problem organism", turning what are now lethal bacteria and viruses into common but harmless companions.

In the background of much of Tenner's argument is a truth that he acknowledges but – in his selection of examples – cannot entirely avoid. "What appears to be a technological question – how much of anything we really need – is in the end a social one," he says. How big a lawn do middle-class homeowners want? The answer will dictate the pollen count in previously allergen-free Arizona.

Fundamentally, Why Things Bite Back is an essay written at book length, with the virtues and vices of that formula. A wealth of lively examples cannot entirely disguise the way in which the author strains to erect a more ponderous analytical framework than the argument really justifies.

Still, the book combines a few thought-provoking issues with enough cautionary tales to keep a dinner table agog. And it has many incidental pleasures, such as this example of Thomas Edison using what might be thought to be a uniquely 20th-century locution. In 1878, he wrote to a European representative that, in the process of invention, "difficulties arise – this thing gives out and then that. Bugs, as such little faults and difficulties are called, show themselves".

If the 19th century gave us the problems of the modern world, it also gave us the vocabulary to describe them.

*Why Things Bite Back is available from FT Bookshop by ringing FreeCall 0500 418 419 (UK) or +44 181 964 1251 (outside the UK). Free p&p in UK*



## LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL

We are keen to encourage letters from readers around the world. Letters may be faxed to +44 171-873 5938 (please set fax to 'fine'). e.mail: letters.editor@ft.com Translation may be available for letters written in the main international languages.

### Matters of fairness for Lloyd's Names

*From Mr N.F. Parker.*

Sir, As with most Names, I was pleased to find Lloyd's second Indicative Finality Statement substantially more to my favour than the first one.

That said, one entry unique to the second statement seems disturbingly unfair.

Before crediting my profit from the 1993 year of account to my statement, my former agents have been allowed to deduct a 19 per cent profit commission.

As the object of the exercise is to cap underwriting losses, this should be given priority: 1993 profits should be used in their entirety to cover losses and agents should take a subordinate place in the queue for their commissions, rather than taking them off the top as has been done.

**N.F. Parker,**
**PO Box 2708,**
**Jeddah 21411,**
**Saudi Arabia**

*From Ms Julia Laurence.*

Sir, Being a small fish in a big sea is the problem that many working Names are now having to face. In the past, working Names had been lured into their Lloyd's membership to ensure employees had a vested interest in the market.

This dispensation often resulted in working Names falling outside the standard requirements (that is, that their assets did not have to exceed £250,000).

However, the final settlement offer for non-underwriting Names appears prejudicial to some of these working Names whose losses do not exceed the £50,000 cap. Perhaps fairness also to the smaller investor could have been achieved through capping at a percentage of overall losses.

**Julia Lawrence,**
**4 Bowling Close,**
**South Street,**
**Bishops Stortford,**
**Herts CM23 2AE, UK**

### Losers in the transition economies

*From Mr Mike Aaronson.*

Sir, The World Bank is utterly complacent about the economic reform process in the transition economies, and the Financial Times too uncritical in its reporting ("Rapid liberalisation is starting to pay off", June 28).

Both the Bank and your report "conceded that change had brought social unrest and rising poverty and inequality levels", yet this amounts to a footnote against the assertion that "firm and persistent market liberalisation yielded large benefits".
In its response to the Bank's *World Development Report*, Save the Children argued that rapid liberalisation has institutionalised extremes of wealth and poverty within the societies in transition. Children and women are the notable losers, along with the rural poor who are stripped of assets necessary for group survival, such as communal access to land.

Even by the Bank's own criteria, these issues threaten the very success of the reform process.

The presence of a large population of impoverished and excluded people, who have no basic trust in government of the new institutions, and who do not see privatisation and other reforms as legitimate, is potentially explosive and ultimately will undermine the conditions for success.

From its experience of children's lives in societies in transition, Save the Children believes the following measures, among others, are necessary to adapt the reform process:

- the crude standardisation of reform packages must be replaced with sensitivity to the culture and social structure of each country;
- there needs to be greater popular participation, to create legitimacy;
- security of livelihood must be placed at the centre of measures to accompany the reforms; for example, by allowing a longer continuation of state subsidies to children and women;
- existing mass organisations and professional associations should be used as a starting point for rebuilding civil society, providing welfare support, and creating the enabling framework for reforms.

In general, it is time for the Bank to stop seeing "social policy" as a discrete sphere of government activity concerning pensions, health care and the like, and to begin examining the social impact of all its reform policies. The "window of opportunity – a period of extraordinary politics", which the Bank says has made its macro-economic reforms possible, is coming to an end.

**Mike Aaronson,**
**director-general,**
**Save the Children Fund,**
**17 Grove Lane,**
**London SE5 8RD, UK**

### Example for EU to follow

*From Mr Brian H. Gill.*

Sir, Ian Davidson's dire appraisal ("UK attitude problem", June 26) of EU governmental and executive attitudes to the UK's stance on matters European makes worrying reading.

Taken with the appearance of articles in the serious UK press examining the practicalities and cost/benefit possibilities of UK secession from the EU, his article underlines the very deep (though frequently down played) cultural border that has existed along the English Channel/La Manche for much of the past millennium.

Indeed, British foreign policy for the past 300 years or so has surely been to refrain from European entanglements unless our national survival was at stake, and to ensure that the continental nations remained disunited.

The current crisis of confidence highlighted by Ian Davidson shows what happens when these policies are disregarded.

The answer cannot be simply to slip on the shackles of rising unemployment and falling competitiveness that seem to be the spin-offs from pursuing the virility symbol of meeting the Maastricht convergence criteria and being in the first wave of Emu: the British electorate would never stand for it.

Somehow, our European partners must be persuaded that in order to restore dynamism to their economies they need to approach much more nearly what has been called "the British way". There are faint indications that this is beginning to be understood across the continent, but the governments there are faced with a long hard struggle to get to the implementation stage.

In the meantime, we here in economically successful Britain will have to "live in interesting times" while Europe catches us up.

**Brian H. Gill,**
**261 Grove Street,**
**Deptford Wharf,**
**London SE8 3PZ, UK**

### Extension has value

*From Mr Fred Woollard.*

Sir, In your editorial "Shares in distress" (June 27) you suggest that the British and French governments should provide "costless" assistance to Eurotunnel by extending its concession from the present 57 years to 99.

Such an extension is most certainly not costless. Its net present value is at least several tens of millions of pounds, maybe more. I suspect that if the extension were to be publicly auctioned, then there would be many genuine buyers willing to pay good money for it.

What possible public purpose is served by the two governments making such a large gift to a group of bankers and shareholders who gambled and lost?

**Fred Woollard,**
**Le Raphael,**
**Apt. 546B,**
**6 Quai des Sanbarbani,**
**Fontvieille,**
**MC 98000 Monaco**

FINANCIAL TIMES

Number One Southwark Bridge, London SE1 9HL
Tel: +44 171-873 3000 Telex: 922186 Fax: +44 171-407 5700

Thursday July 4 1996

# Fiscal fudge threatens Emu

In the run-up to the European Union's planned economic and monetary union no issue is more vexed than fiscal policy. It is still unclear how the fiscal criteria in the Maastricht treaty will be interpreted. It is also unclear how they will be applied after Emu begins.

The interpretation at least should become better understood when, as is required by the Maastricht treaty, the procedure for evaluating the eligibility of member states for Emu is put into effect this year. Indeed this is the main substantive, as opposed to legal, justification for proceeding with this evaluation.

That is not how the heads of governments saw the matter in Florence last month. Their view was that such an evaluation was not "necessary". There was, they thought, no need to go through the tortuous procedure laid down to decide whether a majority of member states was eligible for an Emu starting in 1997. It had already been decided Emu could not start until 1999 precisely because a majority would not be eligible for the earlier date.

The treaty allows no such escape. As the European Council's legal service has pointed out, the member states have no power to waive the requirements of the treaty. But what is unfortunate for those who want to do away with this year's process is fortunate for everyone else. This way the European Commission, the European Monetary Institute, the member states and the European Parliament will all be forced to show this year how they intend to interpret the eligibility criteria for the Emu now due to start in 1999.

This will be painful. Hitherto Denmark, Ireland and Luxembourg have alone been judged worthy – the first two only by virtue of a generous interpretation of the public debt criterion. Quite a bit of creative and politically difficult interpretation of the fiscal criteria may be needed if a plausible number of countries is to be deemed eligible. But where might such creative interpretation stop? If countries that do not meet the criteria strictly are allowed in, how easy will it be to keep others out? The answer must be that it will be very difficult indeed.

If Emu does start in 1999 it may, for this reason, shortly thereafter include virtually every country that wants to join. This will leave much of the fiscal adjustment and much of the friction over fiscal policy until after Emu starts. Yet to decide how a marriage is to work only after it has begun must be a recipe for trouble.

The fate of the notoriously tough proposed "stability pact" of Mr Theo Waigel, the German finance minister, suggests that serious difficulties lie ahead. The ministers of finance agreed last month that the target of 3 per cent for the general government fiscal deficit should not be exceeded in a normal business cycle. They agreed also that each member state should try to balance its budget or even run a surplus in the medium term. Yet they have also rejected the penalties proposed by Mr Waigel for countries that stray over the 3 per cent limit.

Given this reluctance, the poor fiscal record of most member states over the past decade and a half and the certain failure of most to do more than scrape by next year, achievement of such ambitious goals seems highly implausible. Economically, that might be no disaster. But the politics are quite another matter. If the EU eats a great deal of fiscal fudge over the next couple of years, it is likely to suffer from serious indigestion later on.

# US v Boutros

At least the issue of the UN secretary-generalship is now out in the open. The worst outcome, whereby the incumbent would retain his post simply by the force of inertia, without any serious discussion of what needs to be done or what sort of person can do it, has been averted. Last month, irritated by Mr Boutros Boutros Ghali's increasingly open campaign for a second term, the US State Department told the New York Times of its determination to make sure he did not get one.

Mr Boutros Ghali responded by formally declaring his candidacy, and is now drumming up support around the world, apparently in the belief that the US would be embarrassed by having to veto him in the Security Council, or that, even if it did, the General Assembly would override it, as happened in the early 1950s to a Soviet veto on the re-election of Trygve Lie, the organisation's first secretary-general.

That is a most unhappy precedent. The Soviet Union responded by boycotting Lie, who was eventually forced to resign. The US, which strongly deplored that Soviet behaviour, might not stoop so low; but nothing could be more damaging to the UN than for the US to feel that it has been forced to accept a secretary-general in whom it has no confidence.

Of course, it is also intensely irritating to other member states that the US should in effect hold the UN to ransom, illegally withholding its contributions and then using this fact as a form of blackmail to dictate not only the kind of reform the UN should adopt but now also the choice of its chief executive. Indeed, the US cannot and should not be allowed to hand-pick the next secretary-general.

Nor, however, should other members let themselves be bounced into supporting Mr Boutros Ghali simply as an anti-American reflex. That would be singularly inappropriate since, on many issues, he has been co-operative with the US almost to the point of subservience. Indeed it would be ironic if African and other developing countries now line up behind a man they have often criticised in the past.

The real case against him is not that he is too independent or that he has obstructed reform. Rather it is that he lacks both the managerial skills to inspire his staff and the political or rhetorical skills to convince the wider public, especially in English-speaking countries, that the UN is worth supporting. Those are the qualities which the UN as a whole, and not just the US, should be looking for in his successor.

# Price of beauty

The moments when emotions are caught by a vision of beauty, when grand harmonies linger in the mind, or when deep currents in our lives are suddenly revealed: these are the business of great art and it seldom comes cheap. The Church has known this for almost 2,000 years. Its paintings and cathedrals, financed ultimately by the labours of the poor, would be hard to justify on modern utilitarian grounds.

Perhaps a popular vote would have diverted the cost of York Minster into alms houses or bread and circuses. But religious art profoundly affected society and helped to lift people's lives out of the mire of poverty. Secular sponsors enabled Shakespeare to play to the groundlings as well as to the grandees, while great patrons bequeathed the beauties of Europe from Venice and the Rhine castles to the palaces of Paris or Blenheim. They were built for the elite, but now delight everyone.

Today, Church funding has been replaced, perforce, by state subsidy. Private patrons have given way to corporate sponsors. But modern supporters of the arts are constrained by voters and shareholders, many of whom would rather have the money in their pockets than see it spent on "high" culture. The UK government has responded by setting up the National Lottery, which now faces the formidable task of spending its cash wisely. UK corporate sponsors, which have increased their support for the arts eightfold in the last 20 years, face a rather different problem. They need to justify increased spending in terms of corporate goals rather than generalised philanthropy. And a vague contribution to the company's prestige may no longer be enough: arts sponsorship must often find a place in the marketing or advertising budget.

If this is the way to get more money for the arts, it should in principle be welcomed, along with the use of the lottery. But sponsorship sharply focused by corporate goals is likely to have its limitations, especially if company donations are sucked into big, high profile lottery-funded projects at the expense of smaller or riskier ventures.

Western culture was shaped by men of vision supporting artists of genius, a tradition which is hard to continue in popular democracies. In the UK, the corporate sector has played an increasing part, but it is unlikely ever to be a substitute for government funding and, even with the support of the lottery, ministers should resist the temptation to think that it should be more than a useful addition to the duty of the state.

# Undoing the ties that bind

## The accountancy profession is lobbying to end unlimited liability which is undermining the viability of businesses, says **Jim Kelly**

Like many Victorian institutions the English law governing partnerships is beginning to show signs of wear. Originally designed to bind together partners who could meet in one room, it now struggles to cover firms which hardly fit into one building.

Professions from accountancy to architecture have preserved the partnership because it allows owner-managers to share risks and rewards while preserving confidentiality and a personal link with clients.

But the unlimited financial liability borne by partners and their firms is undermining the viability of this unique form of business.

"Yesterday's law is totally unsuitable for today's business. We can't expect an individual to put the future of their family on the line every time one of their fellow partners is accused of making a mistake," says Mr Graham Ward, one of the accountants leading the push for reform.

Later this month Mr Ian Lang, trade and industry secretary, will commit the UK government to sweeping reform of the original partnership laws. But many will ask what could possibly be wrong with a law which has produced half a dozen of the world's top law firms and spawned all of the so-called Big Six accountancy firms.

The heart of the problem is the principle of joint and several liability, under which each member of a group – of companies or of individuals – can be fully liable for the failure of any one member. This affects partners in two ways:

- The partnership as a whole can be jointly and severally liable for losses incurred when it is only one of the parties involved in a lawsuit. For example, a firm of accountants, acting as auditors, can face liability for all the damages in a legal action after a company collapse. Other parties such as the directors may be more to blame, but if they cannot pay their share, the legal principle of joint and several liability says each negligent party is 100 per cent liable. The big audit firms can find themselves targeted for lawsuits because of their "deep pockets" – including their statutory insurance cover.
- Each partner is also jointly and severally liable for the debts of the partnership. If the firm picks up the bill in a lawsuit all partners are liable to meet it – and each has unlimited personal liability.

These two risks mean that a large claim could wipe out a firm's insurance, its assets, and then the personal wealth of all the partners. It also means partners are under pressure to settle out of court. "It's the biggest game of poker in town," says Mr John Barnsley, managing partner at Price Waterhouse, the UK's fifth largest accountancy firm.

Minet, the insurance broking and risk consultancy group, has found that at the end of 1982-83 there were three open claims against the UK's Big Six firms. By 1992-93 there were 627 claims. Insurance premiums had risen by 37.5 times; the result was reduced commercial cover and its replacement, among the Big Six, by self-insurance for which they share the cost.

The Big Six estimate that litigation costs, including insurance, now account for more than 8 per cent of the annual turnover in the UK, which is up to £3bn. In the US litigation costs have reached 13 per cent. The high risks, meanwhile, are said to be putting people off joining the profession.

Accountants began several years ago to lobby the UK government for reform. "But it was difficult to persuade them the disease was fatal until they saw a dead body," says Mr Ian Brindle, senior partner at Price Waterhouse.

The corpse was nearly Binder Hamlyn, a leading audit firm. Earlier this year partners were faced with a £105m judgment in a dispute over audited accounts which was between £30m and £40m in excess of insurance cover. Mr Adrian Burn, senior partner, is taking the case to appeal late next year and expects to win. "Life goes on," he says.

The campaign to limit a firm's liability has broadened. More than 15 representative bodies have backed a campaign for reform. Mr Nigel Turnbull, finance director of the Rank Organisation and a member of the 100 Group, which represents the interests of leading companies, supports what the auditors had been saying all along: that the risks were making professionals defensive about giving robust advice. "If you load auditors with all the liability you will get the kind of report you get in the US – prescriptive not judgmental."

Mr Richard Bagley of the Institute of Directors says: "We felt there was a damaging effect on the economy as a whole." An unfair balance of risk was threatening to produce defensive auditing and the "dumping" of high-risk audit clients, he says.

The IoD also feels that the British system puts UK professionals at a disadvantage when competing with those from other countries who are only liable for a share of the damages reflecting their degree of blame. So-called "proportional liability" is common in Europe, and earlier this year it became established by federal law in the US.

While the UK Department of Trade and Industry has painstakingly considered reforms over a period of years, three of the Big Six have decided they cannot wait. They have already moved to restrict the liability of their partners for the partnership's debts.

KPMG, one of the Big Six, this year turned its audit business into a limited liability company. Incorporation leaves the company liable, as are any negligent partners, but the personal wealth of the rest of the partners is protected. Firms have been able to do this for several years but have been held back by doubts – so far unresolved – over whether it would survive a court challenge and over tax problems.

One of the big benefits of partnership is that partners have been taxed on the previous year's earnings, which – in a growing business – are usually lower than in the current year. Incorporation could have undermined this benefit, but it is disappearing anyway because partners will come under the UK's new self-assessment tax system.

The other solution is to register the partnership in a country which allows partners to limit their liability. Limited liability partnerships offer similar benefits to incorporation but without the tax drawbacks. This is the option backed by Price Waterhouse and Ernst & Young, the third largest firm. Their chosen base is Jersey in the Channel Islands. The island's parliament passed preliminary legislation on Tuesday allowing firms to register as limited liability partnerships, and the change needs only the blessing of the UK Privy Council before it becomes law. Both firms are likely to register offshore in 1997.

This development has helped galvanise the UK government. Mr Michael Heseltine, the deputy prime minister, has let it be known that the reputation of the City could be damaged if the big firms register offshore, and his intervention appears to have accelerated efforts to push through reform.

The government is widely expected in the next month to commit itself to reforming the law which governs the liability of individual partners in a firm. The Law Commission will be asked to undertake an "urgent study" on the issue, although legislation is unlikely to make the statute book before 1998-99. This would not be in time to stop some of the leading accountancy firms moving – at least temporarily – to Jersey.

Meanwhile the DTI will continue to look at the other options contained in a consultation paper earlier this year. The wholesale reform of the laws governing the liability of the firm as a whole – rather than of the individual partners – is still an option in spite of its rejection by the Law Commission last year. However such reform would take several years.

There is no doubt the tide is running strongly for reform in the liability of individual partners. But there will still be critics outside the profession who will say that the auditors' risks match their rewards. Mr Prem Sikka, professor of accounting at the University of Essex, believes restriction of liability would remove a historic protection for the consumer. "This would throw out 150 years of principle – and who would it benefit? Hardly the stakeholders, or the markets."

Many shareholders, disappointed by the failure of auditors in the past to stamp out irregularities, will hope that reducing the risks for accountants will allow them to be more effective in auditing companies. The accountancy profession has already offered to give firmer assurances on fraud in exchange for the proposed reforms. Much will therefore be expected of the proactive auditor of the future, liberated by a significant reduction in risk.

But what worries accountancy firms is that the reform of the law covering partners' liability will dissipate the head of steam behind calls for the wholesale reform of the law covering the liability of firms – by far the greater prize.

Mr Brian Currie, president of the institute of chartered accountants in England and Wales, welcomes reform of partnership law but says that the fundamental unfairness of the present joint and several liability of the firm remains to be tackled. "I am far more interested in the strength of the business than I am in keeping my grand piano."

# · O B S E R V E R ·

## Mr Yen is no noodle

■ What is it about Eisuke Sakakibara, director-general of the Japanese finance ministry's international finance bureau? Few finance ministry officials can move markets simply by sitting tight.

Yet that's just happened in the case of Sakakibara, who is also known among forex dealers as "Mr Yen" for his role – widely exaggerated, he says – in bringing the Japanese currency down from last year's record high against the dollar.

Rumours that Sakakibara, 55, might be moved in Japan's annual round of bureaucratic job changes recently prompted heart flutters in the Tokyo currency market. So foreign exchange dealers betting on the dollar's continued strength against the yen were mightily relieved yesterday evening to learn that Sakakibara is staying put.

Dealers said it was a factor in the dollar's having just risen above Y110 in Tokyo; admittedly, though, weightier factors – such as the Bank of Japan's renewed commitment to a loose monetary policy – played more of a part.

Anyway, finance ministry watchers are glad that "Mr Yen" is sticking around. They would miss his unusually outspoken style. A former Harvard economics professor and historian, Sakakibara once ticked off a US trade negotiator for making a presentation that would have been marked a failure if the American had been Sakakibara's student. Chutzpah or what?

## Poles apart

■ Rolf Timans, the European Union's envoy in Warsaw, never misses an opportunity to spur the Poles on to greater efforts in their preparations for EU membership.

But he had some competition this week when Baroness Thatcher delivered some fiercely anti-Brussels remarks at a dinner hosted by Philip Morris in Warsaw.

"We in the United Kingdom are down in every respect as a result of EU membership," Thatcher thundered to the assembled worthies, representatives of one of Europe's supposedly most Euro-enthusiastic societies.

Poland should "draw up a balance sheet" before it finally decided whether to join or not, Thatcher ploughed on. "You should find out what it's like to be inside – it's over-regulated and if you agree to majority voting, then you lose control of your destiny as a state," she argued. Nato membership was the thing for Poland, she reckoned.

Timans had the advantage of a preview. The pre-prandial drinks had seen Thatcher working the throng and issuing dire warnings regarding the threat of German domination of Europe. "Do you want that after all you've been through in the past?" she asked a group containing Timans.

"I'm afraid I don't agree with you," the diplomat piped up. "After all, I'm a German."

## Once Schmitten

■ More evidence that multimedia is bad for your health.

This time the sufferer is Manfred Schmitt, the man who founded the German computer retailer Escom, which yesterday filed for protection from its creditors. Schmitt should clearly have stuck to his original business – selling harmonicas and guitars.

Instead he chose to get into computers, and after furious growth in the early 1990s – when annual sales jumped by up to 90 per cent – Schmitt became mesmerised by something called multimedia. He even began selling 3-D glasses.

He also took to buying up old technologies like Amiga and Commodore, well-known names in the computer business a decade ago, with grand visions of making what he once described as a "PC-video-telephone". Back to the drawing board.

## Who? Where?

■ Gemina, the Italian establishment's investment company, is attempting to explain to shareholders last year's gaping losses, and a series of judicial inquiries. But it looks like more confusion is the result. A report into various "irregular transactions" carried out by the company's Swiss subsidiaries has been distributed. And to avoid trouble under Swiss law, KPMG – the consultants behind the confidential study – replaced the names of people and places with numbers and letters.

This isn't very illuminating. For example: "In many instances the acceptance letters returned by each of Company H, Company A23 and Company A appear to bear similar signatures," reads one illuminating passage. "These signatures also appear similar to those on a letter from Mr Q to Subsidiary B and on a corporate return of Company A4. On some occasions we observed that the acceptance letter appears to be signed 'B'. We are currently unable to identify this individual."

– They're not the only ones.

## An oversight

■ The Central Intelligence Agency's Internet page has an section entitled "frequently asked questions of the CIA".

One reads: "Does the Central Intelligence Agency engage in assassinations? Executive Order No. 12333 explicitly prohibits the CIA from engaging, either directly or indirectly, in assassinations..."

We'll take that as a maybe.

The Financial Times

## 100 years ago

**Grand Trunk Railroad**
New York:- Sir Charles Rivers Wilson says that after a thorough inspection of the Grand Trunk Railroad, he found the conditions very good – much better than he expected. The general manager, Mr. Hayes, is doing splendidly. Sir Charles is satisfied that the general railway situation is becoming better daily, which results he ascribes to the Joint Traffic Association. He is much pleased that Canadian Pacific has consented to join the Association, and thinks the Norfolk and Western will follow after reorganisation has been affected.

## 50 years ago

**In Czechoslovakia Now**
Information from Czechoslovakia appears to indicate that the first stage of the nationalisation programme has now been largely completed. A number of so-called national concerns have been created representing amalgamations, chiefly on a horizontal basis, of formerly privately-owned units. The majority of well-known firms with overseas connections in the iron and steel, chemical, textile, clothing and mining industries are affected. A number of smaller firms remain in private hands. How they will fare in competition with the new national concerns cannot yet be estimated.

FINANCIAL TIMES
Thursday July 4 1996



Support is welcome boost for Kohl's campaign

# German industry backs Europe's economic union

By Peter Norman in Bonn

German industry yesterday put its reservations to one side and gave its support to European economic and monetary union and the replacement of the D-Mark by the euro.

In a special report drawn up by a panel of leading industrialists, the federation of German industry (BDI) concluded that the advantages of Emu would far outweigh the disadvantages for German industry.

One of the report's authors, Mr Marcus Bierich, the supervisory board chairman of Robert Bosch, the motor components group, said Emu would protect Germany from destabilising currency movements and, by creating a large zone of monetary stability, would provide a secure environment for greater investment.

Emu would also increase the pressure on Germany's government and trade unions to adopt sounder budgetary and wages policies.

Yesterday's report provided a welcome boost for Chancellor Helmut Kohl, whose enthusiasm for Emu is far greater than that of the German people. Whereas most German banks and insurance companies have long said they supported Emu, the position of industry has been less well defined. In particular, the small to medium-sized companies which form the backbone of the German manufacturing sector have shown little enthusiasm for the project.

However, Mr Jan Kleinewefers, their representative on the panel, said yesterday that they too would gain from Emu. The elimination of exchange rate fluctuations among Emu countries would benefit smaller companies in their role as components suppliers for larger groups, he said.

Mr Helmut Werner, managing board chairman of Mercedes-Benz, the luxury car and truck-maker, said last year's exchange rate turbulence and the associated rise in the D-Mark had cost his company DM600m (£255m). Exchange rate fluctuations had a devastating effect on German exporters and made it impossible for companies to have consistent pricing policies in Europe.

Mr Werner warned that without Emu there would be a speculative flow of funds into the D-Mark, increasing its value and creating more insolvencies.

The BDI report said German industry would gain much even if Emu started with only a few member states. Both Germany and France would have to be members for the project to make sense. But the D-Mark's burden of being a reserve currency would then be shared by others.

Mr Bierich said even a small Emu would be worthwhile, because it would exercise a "magnetic" attraction on other EU states that would want to join and would be forced to adopt stable policies to qualify for the single currency.

Mr Hans-Olaf Henkel, the president of the BDI and chairman of the Emu panel, said German industry was lagging behind in its preparations for Emu, with 90 per cent of companies not sufficiently engaged in the project. Companies should speed up because the danger of being caught unready for Emu was greater than the danger of it being delayed beyond the planned starting date of January 1 1999, he said.

German industry backs single currency plan, Page 2
Editorial Comment, Page 13
Deutsche Bank seeks to bolster Frankfurt, Page 15

# Small investors pushed aside in Peru telecom privatisation

By Sally Bowen in Lima

The Peruvian government appears to have mishandled its first big exercise in popular capitalism.

After attracting thousands of ordinary Peruvians to apply for shares in Telefonica del Peru, it has drastically scaled down the numbers of shares available to them in order to accommodate stronger-than-expected demand from international investors.

Banco de Crédito, which acted as domestic co-ordinator, claimed the government's decision to halve the allocation to domestic investors to $148m came as a complete surprise.

"Our mandate from Copri [the government's privatisation commission] was to place as many shares as possible. We were told there would be no cutbacks," said Mr Raimundo Morales, general manager.

"We all made the most strenuous efforts to reach the largest number of investors," he added.

"It is lamentable that we can't meet the share requests of Peruvians."

Almost a quarter of a million Peruvians had responded to an intense advertising campaign to buy shares in the company. Throughout June, they flocked to banks and stockbroking agencies to make small deposits against orders for shares.

Peru's privatisers are scurrying to repair some of the damage done to the image of popular capitalism. The local Telefonica offering had been designed to start building a broad-based shareholder community.

Yesterday, official spokesmen said that all those who requested Telefonica share packages of $400 and below would get them: only larger orders would be subject to pro-rata cuts.

President Alberto Fujimori held out the possibility that the state might sell another 1 per cent of the 5 per cent of the company that it had kept.

Internationally, the Telefonica issue was well received. Orders for the $918m overseas tranche exceeded supply by five times. In the first day's trading, the Telefonica del Peru share price rose more than 10 per cent.

But at home, the experience has left a bitter taste. Peruvians, for whom collapsing financial institutions and lost savings were once sadly familiar, feel that their vote of confidence has been misplaced.

Brokers and bankers say the credibility of popular capitalism has suffered a severe blow: next time round, they warn, convincing investors will be that much harder.

The government's next planned move is to offer for sale its minority holdings in the Banco Continental and the privatised electricity companies.

# E Asian exports suffer sharp slowdown

Continued from Page 1

Crosby Securities in Singapore. "Volumes have held up, but the slowdown in the US has affected values, as it's led to a lot of price-cutting."

A further possibility is that trade within Asia, which has become an important growth locomotive, has slowed, but statistics are not yet available.

But structural changes could also be at work as countries price themselves out of the cheaper end of their product range. "As India comes into the world market very strongly, that's taking away a lot of the textile business from countries like Thailand," said Mr Saker.

China has also suffered from a slowdown in textile and footwear exports. Some international economists there are wondering privately whether more than mere competition is at work. The world market may simply have become saturated with cheap clothing and shoes, they say.

# German group pays SFr2.8bn for World Cup rights

By Jimmy Burns and Raymond Snoddy in London

The German media group Kirch and ISL, the Swiss marketing agency, yesterday won the biggest football broadcasting contract ever with a successful SFr2.8bn ($2.2bn) bid for the television rights to the 2002 and 2006 World Cups outside the US.

It is the first time that the European Broadcasting Union, which represents public service broadcasters such as the BBC of the UK and ARD of Germany, has lost such a big contract.

The likelihood now is that the rights will be sold on to commercial broadcasters around the world with those wholly funded by advertising able to pay the most.

ARD, the German broadcaster, said football fans would suffer because Fifa, the world football governing body, was "breaking off a successful 24-year co-operative relationship that has benefited all viewers in Europe". The broadcaster said the cost would have to be met by extra advertising or pay-per-view rights.

Kirch said yesterday that "all the games would be shown on free TV" but added that it was too early to go into greater detail. It is not clear what will happen if digital pay television, which allows transmission of many more channels, is a significant force in European broadcasting by the 2006 World Cup Finals. Kirch is to launch a digital satellite service in Germany at the end of this month.

The Kirch ISL partnership beat off competition from several international and broadcasting groups, led by Mr Mark McCormack's IMG group and a consortium co-ordinated by the EBU, which are thought to have bid SFr2.7bn and SFr2.2bn respectively. The sums of money compared with SFr112m for the 1994 World Cup and SFr230m for the 1998 tournament.

Mr Joao Havelange, the president of Fifa, announced the award of the rights in spite of internal divisions within the organisation over the issue.

In a curt official statement, Fifa said the organisation's executive had voted for the award at a meeting in Zurich "after a prolonged discussion".

Fifa's 21-man executive committee is understood to have supported the decision by a majority but with the objections of some European members who had argued for greater transparency in the bidding process, and for the rights to be restricted initially to the 2002 World Cup.

Mr Joseph Blatter, Fifa general secretary, yesterday promised that ordinary viewers who could not afford cable or satellite would still be able to watch the World Cup finals. "This is our responsibility, to make sure they see it. It is our duty," he said.

## THE LEX COLUMN

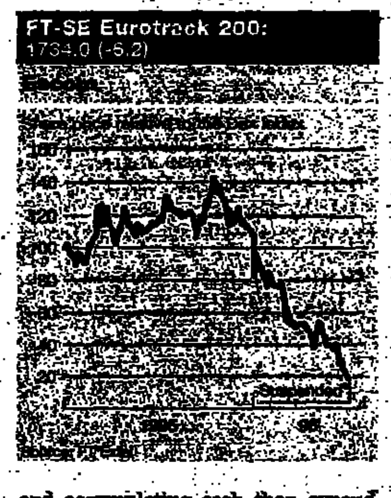
# Computer crash

The slowdown in demand for personal computers has caught much of the industry off guard. Digital Equipment, Apple Computer, NEC and Packard Bell have all run into trouble this year. Even so, Germany's Escom – which yesterday sought protection from its creditors – has only itself to blame for its crash. The computer maker and retailer overreached itself by expanding aggressively into Europe, including last year's purchase of former Rumbelows stores in the UK. And while competition was increasing in its core business, Mr Manfred Schmitt, the group's founder and former chairman, pushed Escom into peripheral activities like making set-top boxes for interactive television.

Escom's survival now rests on a knife-edge. Clearly the group needs a capital injection to iron out the heavy losses. But the shareholder list is strong and includes computer maker Siemens Nixdorf with 12.5 per cent and Quelle, the German retailing group, with 32 per cent. A direct take-over looks unlikely, since they will not want Escom's problems. But they might pump in more money if Escom agrees to shut its assembly-type manufacturing, which is too small to reap significant economies of scale. The group has already made a start by shutting some expensive German production.

That would leave a potentially valuable retail chain of around 400 shops, the biggest in Europe, in a market still growing at 10-15 per cent a year. Vobis, Escom's main German rival, is profitable and if Escom can copy its wider product range and more professional management it should have a viable future.

FT-SE Eurotrack 200:
1734.0 (-6.2)



## GEC

Lord Weinstock is leaving General Electric Company on a high note. Profits before exceptional charges in the last financial year breached the magic £1bn figure for the first time. Moreover, GEC's order book at £14bn is well stocked, the balance sheet sports £2.6bn of net cash and earnings seem set for high single digit growth in coming years.

Nevertheless, the main hopes for GEC shareholders rest not on what Lord Weinstock has achieved recently as managing director but on the potential that Mr George Simpson, his successor, may unlock. The hope is that Mr Simpson will find earnings-enhancing ways to deploy GEC's cash pile – whether by stepping up internal investment, acquiring companies or buying back shares. Lord Weinstock has been better at running a tight ship and accumulating cash than expanding the business.

More specifically, GEC is well-placed to benefit from the current restructuring of Europe's defence industry. Some form of closer alliance between GEC-Marconi and Thomson-CSF, the French defence electronics group that is due to be privatised, seems likely. The best outcome, a merger, would boost profitability by cutting duplication and create a European giant more capable of competing in global markets with large US defence groups.

Such a deal, of course, may not materialise. And the high hopes concerning Mr George Simpson may be dashed. But even then, it seems unlikely the shares will fall much: their current modest premium to the market on a price/earnings basis looks fair given GEC's solid financial base. With the downside protected and the upside not reflected in the current rating, the shares look cheap.

## Somerfield

Kleinwort Benson and SBC Warburg seem to have come up with a wizard wheeze for extracting more money from clients. Instead of the standard indemnity to cover the costs of fighting legal suits relating to corporate finance advisory work – assuming it was not negligent – the two advisers to the holding companies of Somerfield, the UK food retailer currently being floated, have taken £7.5m up front. Many cynics consider City advisers are paid for nothing anyway. But since indemnities are seldom called upon, these fees could be a genuine example of just that.

Warburg and Kleinwort were in a strong negotiating position, since Somerfield would have been unwilling to switch advisers at such a late stage in the transaction. However, there was an easy alternative. The indemnity problem arose from the fact Somerfield's two holding companies will be dissolved once the flotation is completed and proceeds passed on to creditors, leaving nothing with which to indemnify. But if these creditors had put a lump sum into an escrow account, they could have taken the money out after the standard six-year indemnity period – assuming the advisers had not had to use it.

Indeed, the fact creditors have coughed up this substantial sum should ring alarm bells with the advisers. The creditors include numerous lean and hungry US vulture funds and distressed debt dealers – to whom the adjective litigious is easily attached, and who now have one more reason to look for reasons to litigate. Kleinwort and Warburg should probably consider spending their fees on additional insurance.

## J. Sainsbury

Investors listening to the chairman's review at J. Sainsbury's annual meeting yesterday may have felt that, despite what Mr David Sainsbury called "a difficult year" for the UK supermarket business, things were looking up. In fact, there is little reason to hope the stock's poor performance is about to improve.

Like-for-like sales growth since the end of the financial year in May has been 2.7 per cent, well below Sainsbury's main competitors. The petrol price war means the contribution from petrol sales is likely to fall by at least £30m ($46m) this year. Worse, the squeeze on gross margins of 0.7 of a percentage point on the supermarket business, excluding petrol, in the second half of last year has persisted. Add in petrol and it would look more like a full point. Given this sacrifice of gross margin, like-for-like sales growth below both its competitors and food price inflation is worrying.

It looks increasingly likely that this year's profits may come in below last year's. But after downgrades the stock is still trading at a premium to the market and its main competitors. Given the superior performance of Tesco in particular, which established a clear marketing lead through its innovative use of loyalty cards, this seems absurd. Sainsbury's own air mile card, launched more than a year after Tesco grabbed the initiative, is symptomatic of the group's laggardly response to competition. The company's offer to shareholders yesterday of 500 air miles may not be enough to buy their loyalty.



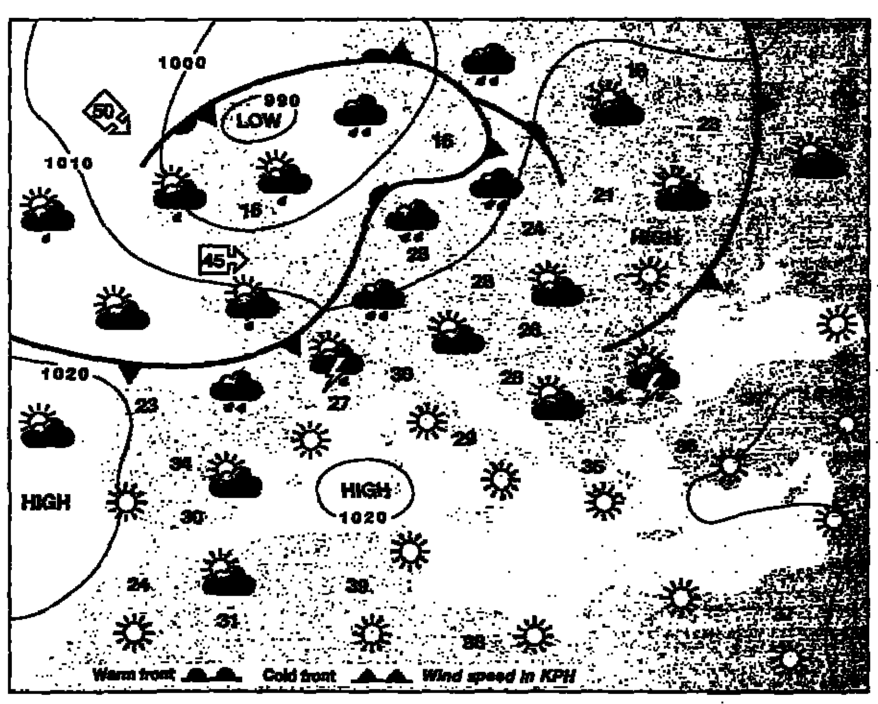
## FT WEATHER GUIDE

### Europe today

Rain will fall near a low pressure system over Scotland. Elsewhere on the British Isles, it will be partly cloudy with occasional rain or showers. Near gale force winds are expected in northern Ireland and western Scotland. Germany, France and northern Spain will have rain. There will be a few thunderstorms in the western Alps and southern France. Wet and cool conditions are expected over southern Scandinavia. In contrast, a high pressure system over the Ukraine will bring dry conditions with sunny spells to eastern Europe and the Balkans. A cold front will trigger a few thunderstorms in Romania and northern Bulgaria. The Mediterranean will be sunny.

### Five-day forecast

It will continue to be partly cloudy with showers and cool temperatures throughout the British Isles, southern Scandinavia and across most of central and western Europe. Thunderstorms will contine over the Alps, northern Spain, southern France and eastern Europe. Dry and hot conditions will prevail in southern Europe and the Balkans.




Situation at 12 GMT. Temperatures maximum for day. Forecasts by Meteo Consult of the Netherlands

TODAY'S TEMPERATURES

| | | Maximum Celsius |
|---|---|---|
| Abu Dhabi | fair | 44 |
| Accra | thund | 26 |
| Algiers | sun | 28 |
| Amsterdam | fair | 18 |
| Athens | sun | 35 |
| Atlanta | sun | 32 |
| B. Aires | fair | 14 |
| B.ham | shower | 17 |
| Bangkok | cloudy | 38 |
| Barcelona | shower | 26 |
| Beijing | fair | 34 |
| Belfast | shower | 17 |
| Belgrade | fair | 29 |
| Berlin | shower | 23 |
| Bermuda | rain | 30 |
| Bogota | fair | 19 |
| Bombay | thund | 32 |
| Brussels | cloudy | 18 |
| Budapest | fair | 26 |
| C.hagen | rain | 18 |
| Cairo | fair | 37 |
| Cape Town | rain | 16 |
| Caracas | shower | 31 |
| Cardiff | shower | 17 |
| Casablanca | sun | 25 |
| Chicago | fair | 27 |
| Cologne | rain | 19 |
| Dakar | fair | 32 |
| Dallas | sun | 36 |
| Delhi | shower | 34 |
| Dubai | fair | 43 |
| Dublin | shower | 18 |
| Dubrovnik | sun | 30 |
| Edinburgh | rain | 17 |
| Faro | sun | 26 |
| Frankfurt | shower | 25 |
| Geneva | thund | 27 |
| Gibraltar | sun | 29 |
| Glasgow | rain | 16 |
| Hamburg | rain | 20 |
| Helsinki | shower | 17 |
| Hong Kong | cloudy | 32 |
| Honolulu | shower | 32 |
| Istanbul | sun | 32 |
| Jakarta | cloudy | 32 |
| Jersey | cloudy | 17 |
| Karachi | fair | 35 |
| Kuwait | sun | 48 |
| L. Angeles | fair | 26 |
| Las Palmas | sun | 27 |
| Lima | cloudy | 18 |
| Lisbon | sun | 26 |
| London | fair | 20 |
| Lux.bourg | rain | 19 |
| Lyon | thund | 27 |
| Madeira | fair | 25 |
| Madrid | sun | 34 |
| Majorca | sun | 28 |
| Malta | sun | 32 |
| Manchester | shower | 16 |
| Manila | thund | 33 |
| Melbourne | rain | 14 |
| Mexico City | shower | 32 |
| Miami | cloudy | 33 |
| Milan | fair | 26 |
| Montreal | rain | 19 |
| Moscow | fair | 20 |
| Munich | fair | 28 |
| Nairobi | thund | 28 |
| Naples | sun | 29 |
| Nassau | thund | 32 |
| New York | cloudy | 28 |
| Nice | sun | 27 |
| Nicosia | sun | 38 |
| Oslo | rain | 18 |
| Paris | rain | 21 |
| Perth | fair | 17 |
| Prague | fair | 27 |
| Rangoon | cloudy | 32 |
| Reykjavik | sun | 12 |
| Rio | fair | 22 |
| Rome | sun | 28 |
| S. Frsco | fair | 22 |
| Seoul | rain | 25 |
| Singapore | thund | 31 |
| Stockholm | rain | 19 |
| Strasbourg | shower | 26 |
| Sydney | sun | 17 |
| Tangier | sun | 28 |
| Tel Aviv | sun | 35 |
| Tokyo | cloudy | 28 |
| Toronto | cloudy | 21 |
| Vancouver | cloudy | 22 |
| Venice | sun | 26 |
| Vienna | fair | 27 |
| Warsaw | fair | 24 |
| Washington | fair | 28 |
| Wellington | shower | 11 |
| Winnipeg | thund | 28 |
| Zurich | shower | 25 |

FINANCIAL TIMES
# COMPANIES & MARKETS
©THE FINANCIAL TIMES LIMITED 1996
Thursday July 4 1996



## IN BRIEF

### Lufthansa declines 47% in first half

Provisional pre-tax profits at Lufthansa, the German airline, fell 47 per cent in the first half from DM189m to DM100m ($65.6m) as a result of increasing competition and falling prices. Mr Jürgen Weber, chairman, acknowledged that the period had "not been satisfactory". However, he gave an upbeat outlook, forecasting that last year's pre-tax earnings of DM766m would be matched. Page 16

**ADT shareholders ponder change of head**

It has been an interesting and unexpected week for shareholders in ADT, the security and car auction company. The $4.4bn agreed bid for their company from Republic Industries boils down to one central proposition: that they should swap Mr Michael Ashcroft, their chairman (left), for Mr Wayne Huizenga, a somewhat different entrepreneur. Mr Huizenga has built two businesses from scratch: WMX Technologies, the world's largest rubbish collector, and the Blockbuster video chain. Page 17

**Renault gains foreign shareholders**

Non-French financial institutions are to be included in Renault's group of so-called "partner shareholders" for the first time. The move follows the French state's sale of a further 6 per cent of Europe's third-largest carmaker, taking its stake to less than 50 per cent. There are five foreign banks among the 12 institutional investors which bought the state's 14.4m shares. These are Banque Cantonale Vaudoise and Union de Banques Suisses of Switzerland, Bayerische Landesbank and Commerzbank of Germany and ING of the Netherlands.

**Truck market up 10%, says Scania**

Scania, the Swedish truckmaker, said the west European market for heavy trucks had grown almost 10 per cent in the first five months of the year and its own market share had risen from 14.5 per cent to 16.2 per cent. Page 16

**Union Pacific railway merger approved**

The biggest railway merger in US corporate history looked set to go ahead after a federal review board gave the green light to a $3.9bn takeover of Southern Pacific Rail by Union Pacific. Page 17

**Cheung Kong global offer to net HK$4bn**

Cheung Kong Infrastructure Holdings, a unit of Cheung Kong, the property developer controlled by Mr Li Ka-Shing, is to net HK$4.16bn (US$53.74m) from its global offering, assuming over-allotment options are taken up. Page 18

**Sainsbury's growth falls behind rivals**

J. Sainsbury, the UK retail group, provided further evidence that it was losing the supermarket battle for customer spend when it reported sales growth figures well below those of its main rivals. Page 19

### Companies in this issue


| | | | |
|---|---|---|---|
| ADT | 17 | Lufthansa | 16 |
| Aérospatiale | 16 | Mediaset | 16 |
| Air France | 16 | Orient Express | 17 |
| Apple Computer | 17 | PepsiCo | 17 |
| Axel Springer | 16 | RWE | 16 |
| Bausch & Lomb | 17 | Reed Elsevier | 15 |
| CP Group | 3 | Sainsbury | 19, 14 |
| Cheung Kong | 18 | Scania | 16 |
| Cray Electronics | 19 | Schroders | 16 |
| Crédit Lyonnais | 16 | Shell | 1 |
| Dassault Aviation | 16 | Shepard's | 15 |
| Deutsche Bank | 15 | Sherwood Group | 19 |
| Digital Equipment | 15 | Snia BPD | 16 |
| Escom | 15, 14 | Southern Pacific | 17 |
| Ford | 3 | St Paul Companies | 19 |
| GEC | 15, 14 | Telefonica del Peru | 14 |
| IMI | 16 | Times Mirror | 15 |
| ISL | 14 | Union Pacific | 17 |
| Kirch | 14 | Wickes | 19 |

### Market Statistics

| | | | |
|---|---|---|---|
| Annual reports service | 26-27 | FT-SE Actuaries indices | 28 |
| Benchmark Govt bonds | 20 | Foreign exchange | 21 |
| Bond futures and options | 20 | Gilts prices | 20 |
| Bond prices and yields | 20 | London share service | 26-27 |
| Commodities prices | 22 | Managed funds service | 23-25 |
| Dividends announced, UK | 19 | Money markets | 21 |
| EMS currency rates | 21 | New intl bond issues | 20 |
| Eurobond prices | 20 | Bourses | 30-31 |
| Fixed interest indices | 20 | Recent issues, UK | 28 |
| FT/S&P-A World Indices | 32 | Short-term int rates | 21 |
| FT Gold Mines index | 28 | US interest rates | 29 |
| FT/ISMA intl bond svc | 20 | World Stock Markets | 29 |


### Chief price changes yesterday

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| **FRANKFURT (DM)** | | | | Fonc Lyonnaise | 579 | + | 26 |
| **Rises** | | | | Synthelabo | 430 | + | 14.1 |
| [illegible] | 377.5 | + | 5.5 | **Falls** | | | |
| [illegible] | 197 | + | 5 | Cred Lyon | 118.4 | – | 5.2 |
| **Falls** | | | | Havas | 402.1 | – | 10.9 |
| [illegible] | 1435 | – | 55 | Immobanque | 592 | – | 25 |
| Deutsche Babcock | 83.5 | – | 4.5 | **TOKYO (Yen)** | | | |
| [illegible] | 865 | – | 18 | **Rises** | | | |
| [illegible] | 173 | – | 11 | Kyodo Shiryo | 538 | + | 23 |
| **NEW YORK ($)** | | | | M'bishi Chem | 518 | + | 15 |
| **Rises** | | | | M'bishi Matls | 610 | + | 23 |
| [illegible] | 37¾ | + | 1¾ | Nikon Nosan | 539 | + | 44 |
| [illegible] | 20¾ | + | 1¾ | Niigata Eng | 417 | + | 15 |
| **Falls** | | | | Nissin Elec | 944 | + | 81 |
| Boyd Gaming | 12¼ | – | 3 | **HONG KONG (HK$)** | | | |
| Chesapeake En | 61⅛ | – | 2⅝ | **Rises** | | | |
| [illegible] | 37⅛ | – | 2¾ | China Assets | 3.05 | + | 0.2 |
| [illegible] | 31¼ | – | 7¼ | China Elegance | 2.7 | + | 0.125 |
| **LONDON (Pence)** | | | | China Stategic | 2.3 | + | 0.125 |
| **Rises** | | | | JCG | 6.7 | + | 0.25 |
| Bibby (J) | 110 | + | 8 | Sinocan | 3.75 | + | 0.225 |
| Ferguson Int | 264 | + | 22 | **Falls** | | | |
| **Falls** | | | | SCMP | 5.1 | – | 0.2 |
| Colls | 135 | – | 8 | **BANGKOK (Baht)** | | | |
| [illegible] | 448 | – | 35 | **Rises** | | | |
| [illegible] | 285 | – | 24 | Central Pat | 124 | + | 11 |
| [illegible] | 73 | – | 9 | Khonkaen Fd | 71.5 | + | 6.5 |
| **TORONTO (C$)** | | | | Land & House | 326 | + | 32 |
| **Rises** | | | | Siam Food Prod | 100 | + | 7 |
| [illegible] | 6 | + | 1 | **Falls** | | | |
| [illegible] | 3.5 | + | 0.95 | Inoue Rubber | 65 | – | 5.5 |
| **Falls** | | | | Saraphon Foods | 22 | – | 2 |
| [illegible] | 8.45 | – | 2.2 | | | | |
| [illegible] | 9.25 | – | 1 | | | | |
| PC Docs | 25 | – | 2.25 | | | | |
| [illegible] | 8.5 | – | 1 | | | | |
| **PARIS (FFr)** | | | | | | | |
| **Rises** | | | | | | | |
| [illegible] | 808 | + | 24 | | | | |

New York and Toronto prices at 12:30.

# Escom seeks creditor protection

By Michael Lindemann in Bonn and Paul Taylor in London

Escom, the German personal computer group, yesterday sought protection from its creditors after its shareholders refused to inject further funds to cover losses caused by a stock write-down and "significant" trading losses in the first half.

The troubled group said shareholders and banks, which agreed in March to provide DM100m ($65m) of extra funding to cover Escom's initial estimates of its 1995 losses, had after "intensive discussions" refused to supply further funds.

Shares in Escom, which ranks as one of Europe's largest PC retailers, were suspended yesterday in Frankfurt and Düsseldorf at DM4.63, down from a high earlier this year of DM22.50.

Escom's problems reflect a number of factors including the marked slowdown in the PC market in Germany coupled with its failure to stem losses and reverse its declining German market share.

In March, Escom announced higher than expected full-year net losses of DM125m, which it blamed on falling PC sales, stock write-downs and price cuts.

Later that month the company received a DM100m capital injection from its shareholders and banks and Mr Manfred Schmitt, who founded the group, was replaced as chief executive by Mr Helmut Jost, a former management board member.

The company said yesterday that following a restructuring begun by its new chief executive it had been forced to write down the value of its stocks because of the "continuing" fall in the price of computer components. As a result it warned that net losses for last year would total about DM180m.

Escom, which this week announced the closure of 65 of its stores in the UK with the loss of 227 jobs, said it had run up "significant losses" in the first half of this year because computer sales had been lower than expected.

Under a *Vergleich* – similar to Chapter 11 protection in the US and designed to stave off bankruptcy by reducing and rescheduling debts – the German group must have sufficient funds to pay its wages and repay 35 per cent of its debts within 12 months.

While Escom's difficulties underline the competition in the European computer market, some analysts suggested that the group's problems were largely homemade. Aggressive expansion into new markets such as the UK had caused storage and supply problems.

Lex, Page 14

# Reed in US legal publishing venture

By Raymond Snoddy in London

Reed Elsevier, the international information and publishing group, said yesterday it was strengthening its legal information business in the US through a 50-50 partnership with Times Mirror, the US media group which owns the Los Angeles Times.

Under the agreement, Reed Elsevier will pay an estimated $250m for half of Shepard's, the US legal publisher which produces material that can be officially cited in court.

Times Mirror is acquiring Shepard's from McGraw Hill, the US financial services and information group, in exchange for Times Mirror's Higher Education Group, the fifth largest college publisher in the US with revenues of $227m in 1995 and an operating profit of $15m. In addition to the asset swap, largely happening for tax reasons, Times Mirror is paying McGraw Hill an undisclosed sum.

It is believed the deal values Shepard's, which employs about 900 people and provides print, CD-Rom and online legal information, at about $500m. In the year to December 31 1995m, Shepard's had revenues of $86.3m and earnings before interest and tax of $40.7m.

Mr Nigel Stapleton, who took over as co-chairman of Reed Elsevier this week, said yesterday: "Shepard's is a route map through the American legal system. You need it to know you are in the right place."

The deal is seen as part of a broad collaboration between Reed Elsevier and Times Mirror to pursue jointly opportunities in the US legal information market.

Reed Elsevier, which owns the Lexis-Nexis database system, has a licensing agreement with Matthew Bender, the Times Mirror analytical legal publisher. As a result, the Times Mirror material goes online and a significant proportion of the Lexis case law database is distributed through Bender's print and CD-Rom products.

Mr Herman Bruggink, co-chairman of Reed Elsevier responsible for legal business, said that by combining Bender's print and CD-Roms with Lexis-Nexis' expertise in online publishing and the Shepard's products "this partnership will generate far more value to both sets of shareholders than either company could have achieved by an outright purchase of Shepard's".

# GEC rises 10% to hit top end of forecasts

By Bernard Gray, Defence Correspondent

Lord Weinstock yesterday produced his final set of results as managing director of the UK's General Electric Company to applause from analysts. GEC's profits before tax rose to £981m ($1.5bn), a record, and its shares climbed 12p to 363p.

Turnover, profits and dividends were all at the high end of analysts' expectations, with progress made in almost all areas.

Group sales were £10.99bn, a rise of 6 per cent, with profits before tax up 10 per cent at £981m.

A final of 9.41p makes a total of 12.51p (11.37p).

The driving force behind the profits rise was the improvement at GEC-Marconi, the defence and electronics subsidiary. Operating profits in the division rose 42 per cent to £291m, on turnover of £3.05bn (£2.67bn).

However, several factors distorted the figures. About £60m of the rise was attributable to the inclusion for the first time of VSEL, the Barrow-in-Furness submarine builder which GEC bought last year in a contested bid battle with British Aerospace.

It also took a £48m charge against the potential costs of completing a number of "problem contracts", thought to include several defence programmes and the much troubled in-flight entertainment system being developed for United Airlines.

The company appears to think the worst is over. Lord Prior, chairman, said yesterday: "We do not expect future years' results to be burdened with these matters."

There was also a one-off profit within Marconi of £25m from disposals. Stripping out these distortions the subsidiary's profits were still comfortably ahead, and analysts were encouraged that profit margins in the division are rising towards GEC's stated goal of 10 per cent. It won orders for three frigates for the Royal Navy, three offshore patrol vessels for Brunei, and was selected to be the prime contractor on the Ministry of Defence's £2bn Trafalgar submarine programme.

Problems with Eurofighter's flight control system and radar are being resolved, and the company is working with the MoD to improve its Phoenix battlefield drone aircraft.

Lord Prior paid tribute to Lord Weinstock's long occupation of "the most important job in British industry". Lord Weinstock is being replaced by Mr George Simpson.

Lex, Page 14

**Louise Kehoe** reports on US computer group's reversal of fortune

# Cold light of day replaces false dawn at Digital

Just three months ago, it appeared that Digital Equipment had turned the corner. The long-struggling US computer company had achieved six quarters of profits and after halving its workforce with the loss of more than 60,000 jobs, it seemed the painful "rightsizing" was complete.

It came as a severe blow, therefore, when Mr Robert Palmer, Digital chairman and chief executive, announced this week that results for the June quarter just ended would be "well below expectations" and that Digital must cut another 7,000 jobs and take a $475m charge to cover the cost of lay-offs.

Mr Palmer, who took the reins at Digital in 1992, was blunt in describing the company's dual problems – rising losses in its personal computer business and weak performance in Europe, where it normally makes nearly half its sales.

The PC business "has not been managed very well at all", said Mr Palmer. "We did not accurately measure the sales of channels partners [third party resellers] as accurately as we were measuring what we were selling to them."

Digital discovered early this year that distributors and resellers were overstocked with its PCs. Instead of a normal six weeks worth of stocks, distributors had enough PCs for 15 weeks of sales.

Just as Digital began to address this problem, however, competitors in the PC market began slashing prices even more aggressively than usual. These price cuts, spurred by slower than expected Christmas sales in the US as well as a sharp fall in the price of memory chips – some of the most expensive components in a PC – caught Digital off guard.

"We got hit harder than our competitors," said Mr Palmer, because Digital had to compensate its dealers for the declining value of their bloated stocks. Digital PCs are being advertised by US dealers at firesale prices of less than $600.

Bloodied by its experiences in the PC market, Digital has abandoned its ambitions to become a leading PC manufacturer. Although it will still offer PCs to its corporate customers as part of large networked systems, it is retrenching as quickly as possible.

This represents a serious defeat for Mr Palmer, who had hoped to raise Digital's profile among investors and customers through a significant presence in the PC business.

It also demonstrates that Digital, despite all the changes Mr Palmer has made over the past few years, remains weak in its ability to manage relationships with third-party resellers.

Historically, Digital insisted on selling a far higher proportion of its products direct to end users than most of its competitors in the computer industry. Expanding sales via resellers has been an important element of Mr Palmer's strategy to revive the company.

Financial analysts welcomed the news that Digital will in future concentrate most of its PC efforts in the more lucrative "server" segment of the market – the computers used to link office networks. Mr Palmer acknowledged that profit margins on PC servers were also likely to come under pressure in the near future as several other PC manufacturers entered the field.

Intel, the dominant supplier of microprocessor chips to the PC industry, is fuelling this trend by offering ready-made circuit boards containing its highest performance Pentium Pro chips. This enables PC manufacturers to enter the server market with a minimum investment.

Digital's problems in Europe also reflect difficulties in its relationships with third-party resellers. Over the past few years, Digital has been undertaking a broad restructuring of its European operations in which the company handed over responsibility for sales to all but its largest customers to third party resellers.

Mr Palmer said: "We dropped a few important accounts. We didn't get the level of coverage that we needed." Digital would roughly double its direct sales force in Europe, he said. Digital also adopted a "pan-European" management structure, replacing its traditional country-based management with centralised controls. Pan-European management was "easier to talk about than to execute", said Mr Palmer.

Digital was hardly alone among US computer companies, Mr Palmer pointed out, in struggling to balance the need to reduce selling costs in Europe, which were much higher than in the US, with the difficulties of instituting centralised management in a region which included widely differing markets.

There would be management changes Europe, Mr Palmer said, but he acknowledged that senior managers in the US might not have done a good job in guiding the changes in Europe.

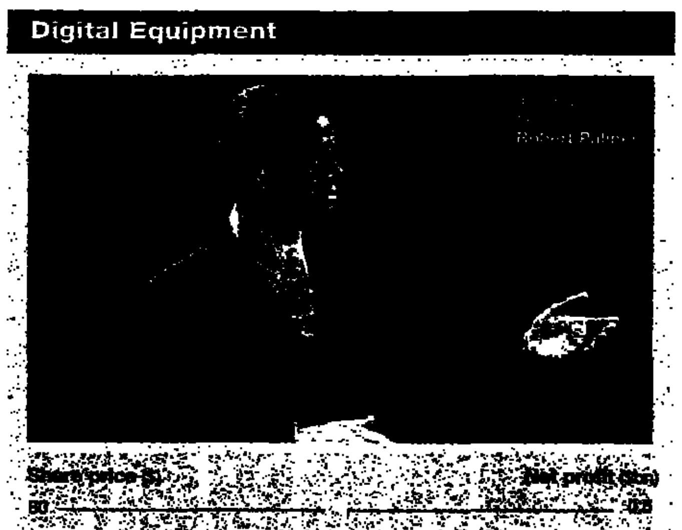
Blame for the PC market debacle, in contrast, was placed firmly on Mr Enrico Pesatori, Digital's number two executive and the general manager of its computer products division, who resigned this week. "We must hold our managers accountable," Mr Palmer said.

Looking forward, Digital remained well placed to take advantage of strong growth in "internetworking" – linking local computer networks to company-wide intranets or to the global Internet. The company also boasted the world's fastest microprocessors with its range of Alpha chips. Sales of Alpha-based servers, running Microsoft's Windows NT operating system, were growing at double-digit rates, Mr Palmer said.

Yet customer and investor confidence in Digital, and in Mr Palmer's leadership, has been shaken by the latest setbacks. Mr Palmer insists he has the full support of Digital's board and will remain at the helm "as long as we are making progress".

"Digital will be back on track by December," Mr Palmer said. There will be intense pressure on him to deliver on that promise.

Digital Equipment




# Deutsche Bank seeks to bolster Frankfurt with new product

By Andrew Fisher in Frankfurt

Deutsche Bank, Germany's biggest bank, yesterday introduced a trading instrument to strengthen the country's financial markets before European monetary union.

The short-term trading instrument supported by a daily Frankfurt overnight money fixing was a "milestone in the further development of Frankfurt as a financial centre", according to Mr Detlef Bindert, head of money market trading at Deutsche Morgan Grenfell – the bank's investment banking operation. It would improve the city's chances of becoming the leading centre for trading in the euro, the planned single currency after Emu, he said.

The move involves a daily fixing of the Frankfurt interbank offered rate (Fibor) for overnight or call money and a newly developed interest rate swap, the Frankfurt interbank overnight average (Fiona). Although an informal "grey market" has operated in Fiona swaps since the start of the year, the fixing, which began this week, will give banks, companies and other market participants a benchmark on which to base hedging and risk management decisions.

This extension of the German money market comes shortly after the Bundesbank relaxed its opposition to government issues of short-term paper. Last month, the central bank and the finance ministry said the government would issue six-month "Bu-bills" and two-year treasury notes. This was aimed at enhancing German financial markets ahead of Emu – especially in competition with France – without coming into conflict with the Bundesbank's long-term monetary policies.

Mr Bindert also pointed to France as the dominant competing market in short-term derivative instruments. He said the "grey market" in Fiona swaps totalled about DM7bn ($4.5bn), with Deutsche Morgan Grenfell handling the largest share. The volume could soon exceed DM10bn, he said. Overnight swaps also exist for lira, pesetas and dollars.

Deutsche Morgan Grenfell and seven other banks will act as marketmakers in Fionas for amounts up to DM100m. Some 19 banks, including foreign institutions, take part in the Fibor call money fixing each morning. Further products are planned on the basis of the Fibor fixing which was agreed by the central credit committee, a group of banks and banking associations.

Mr Bindert said further steps were necessary to strengthen the German money market. These included the abolition of the 30 per cent withholding tax, which he described as a large burden for the domestic money market, and a freeing of securities repurchase deals from the Bundesbank's minimum reserve policy.

# Lufthansa under fire over 47% decline in first half

By Wolfgang Münchau in Frankfurt

Provisional pre-tax profits at Lufthansa, the German airline, fell 47 per cent in the first half from DM189m to DM100m ($65.5m) as a result of increasing competition and falling prices.

Mr Jürgen Weber, chairman, acknowledged yesterday that the period has "not been satisfactory". However, he gave an upbeat outlook, forecasting that last year's pre-tax earnings of DM756m would be matched. Analysts said his forecast was too optimistic, given yesterday's figures.

Shareholders attacked the company's information policy at yesterday's annual meeting, accusing Mr Weber of creating uncertainty about the true earnings performance. One shareholder criticised the "indiscipline in the treatment of such sensitive figures".

The announcement of a DM100m first-half profit follows several turbulent weeks for Lufthansa's share price, after a German newspaper reported in June that the company would incur a large first-half loss.

The report drew a statement from Lufthansa saying the period had not been satisfactory – this drove the share price down 5 per cent. This week Mr Weber said the airline had actually made a profit.

Yesterday, Lufthansa shares dropped DM2 to DM222.50.

Mr Weber blamed the weak economy, aggressive price cuts by competitors and the fire at Düsseldorf airport for the fall in profits.

Mr Jürgen Pieper, transportation analyst at Deutsche Morgan Grenfell, said: "We have taken a critical view about Lufthansa. We have lower expectations [for the current year] than the company itself, and we expect an [earnings] outcome at 10 per cent below 1995."

He said the growth of Lufthansa's passenger business, by 1 per cent during the first five months, looked poor beside the west European market rate of more than 6 per cent. He also forecast a weak third quarter at Lufthansa because of price cuts.

Mr Weber yesterday reiterated the need for restructuring. Under "Programme 15", Lufthansa aims to cut unit costs by 20 per cent over the next five years, to less than 15 pfennigs per kilometre per seat.

# Gemina orphan now faces Fiat rejection

## With 'SuperGemina' dead and the main investor undecided, Snia BPD looks vulnerable

Snia BPD, the Italian holding company, is a SuperGemina orphan – one of the nine quoted companies linked last September to the controversial plan to merge Gemina, the investment company, with Ferruzzi Finanziaria (Ferfin), another holding company, and then marooned when the scheme was shelved six weeks later.

The plan was masterminded by Gemina's main shareholders, led by Mediobanca, the Italian corporate establishment's house bank, and Fiat, the industrial group which owns 48 per cent of Snia BPD.

It would have dissolved the holding company and divided its main quoted subsidiaries – Snia Fibre (fibres), Caffaro (chemicals) and Sorin Biomedica (bio-engineering) – between Ferfin and Montedison, the industrial group controlled by Ferfin.

Mr Umberto Rosa, Snia BPD chief executive, believes the SuperGemina project was a good idea. "It had an important function, which was to create a safety net for companies which, for one reason or another, risked being bought for a fistful of dollars by the first person to pass by. And all the conditions for developing a coherent industrial strategy were there," he says.

Mr Rosa adds, however, that the proposal blocked Snia BPD's own restructuring plans for at least 10 months. It was the Snia BPD board, under pressure from fund managers, which declared at the shareholder meeting in late April that SuperGemina was dead.

Now Snia BPD's destiny is once again partly in its own hands, and partly in those of Fiat. Justifying the SuperGemina plan last September, Mr Cesare Romiti, then chief executive of Fiat, implied the chemicals and biomedical companies were non-core businesses.

Last week, at his first shareholder meeting since taking over as Fiat chairman, Mr Romiti said the group had "no intention of dismembering [Snia BPD] or selling it in parts". Instead, he indicated Fiat would consider reducing its stake, while retaining control.

This hardly seemed like a vote of confidence, but Mr Rosa says the group does not feel cast aside. "I think it's obvious that Fiat should concentrate on its core businesses and that obviously creates a Snia problem," he says. "But we would feel a lot more abandoned if we were losing money."

In fact, Snia BPD is making more money now than in the past four years. In 1995, it reported a net profit of L63.5bn ($41.3m), against L25.2bn in 1994, on turnover of nearly L3,000bn. Earnings per share of L83 have almost recovered to the level of 1991, before recession took its toll on what was a portfolio of highly cyclical businesses.

Mr Rosa took over as chief executive in 1990, four years after Fiat became controlling shareholder. He inherited a mixed bag of businesses, including Fila, the clothing company, and the defence and space activities descended from Bombrini Parodi Delfino (BPD), bought by Snia in 1968 and merged in the 1980s.

He decided to concentrate on the three core businesses. A heavy investment programme was carried out at Sorin Biomedica, the bioengineering company, to challenge for market share in areas such as cardiac surgery equipment, including artificial cardiac valves and heart-lung machines.

Caffaro, the chemicals company, was told to concentrate on fine and speciality chemicals, and the plastic film and wrapping sector. Snia Fibres became a manufacturer of only nylon and acetate fibres, first through an asset swap with Enimont, which acquired the old polyester and acrylic fibres activities, and then through the establishment of two 50-50 joint ventures with Courtaulds of the UK in acetate fibres, and Rhône Poulenc of France in nylon fibres.

Meanwhile, Fila was sold to Gemina (where it is now one of the group's most successful holdings, quoted in New York), and the defence businesses to Fiat.

"The old Snia structure amplified the first signs of economic crisis, because the structure of the group was completely cyclical," says Mr Rosa. This year – "which doesn't look like a year of plenty" – should prove whether the attempt to balance the cyclical and the non-cyclical has worked. The main difficulties could arise in the Rhône Poulenc nylon fibres joint venture, which has had teething problems since it was set up two years ago, and on the currency markets.

"The impact of a strengthening lira is extremely negative, because we are very strong exporters into the D-Mark area," says Mr Carlo Vanoli, in charge of corporate development at the group.

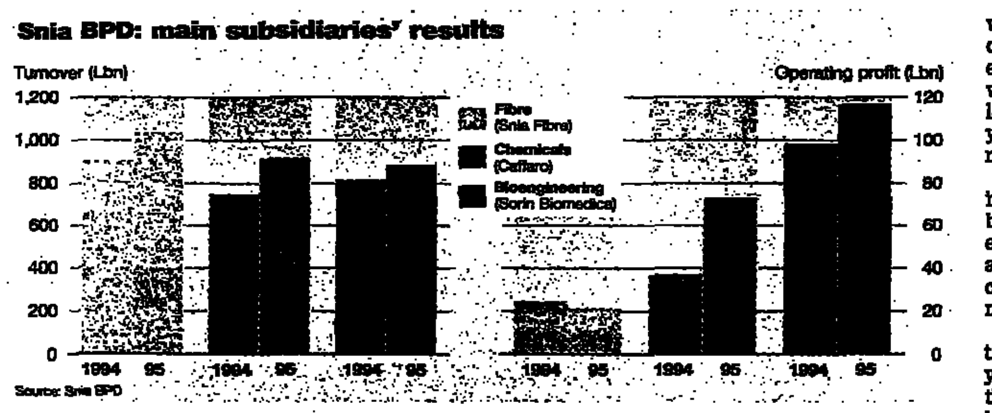
That said, Mr Rosa believes that at group level, "if this year goes badly, we will make the same net profit as in 1995; if things go well, we will do better".

As for the unwieldy structure of the group, Mr Rosa concedes it is not that logical, but says there is little Snia BPD can do about it. Mr Vanoli points out that Snia BPD is a hands-on holding company, which "enters into the merits and the detail of the business" and has no debt at holding company level – a handicap for other Italian holding companies such as Ferfin and Fininvest.

The clear implication is that shareholders are not giving Snia BPD the credit for its efforts in rebalancing the group: the holding company's shares stand at a 20 per cent discount to the value of shares in its portfolio, having fallen in the week following Mr Romiti's comments. As analysts point out, the shadow of SuperGemina may have lifted, but uncertainty about Snia BPD's future within the Fiat empire remains.

**Andrew Hill**

Snia BPD: main subsidiaries' results




Source: Snia BPD

# Investors curse failure of super plan

By Andrew Hill in Milan

Abandonment of the SuperGemina plan brought some solace for Snia BPD shareholders, but little comfort to investors in Gemina itself. The continuing judicial investigation into alleged false accounting forced the resignation of the investment company's board, while losses at the group's RCS publishing subsidiary deepened.

The new board was unable to consolidate the results of Capital Gemina Markets, a wholly-owned financial subsidiary, because the Swiss authorities blocked the transfer of information to Italy on legal grounds.

Just before last weekend's shareholder assembly, Gemina directors had to approve a further increase in consolidated losses, to cover increased risk provisions, bringing the net loss for the year to L694.5bn ($451.5m).

Mr Giampiero Pesenti, Gemina chairman until earlier this year, said on the eve of the shareholder meeting that the recent problems merely confirmed "how difficult it was for a non-executive chairman to follow the affairs of the company".

His successor, Mr Giorgio Rossi, was more graphic. He described the 1995 balance sheet as "cursed". But he added that the provisions were symptomatic of the new directors' cautious attitude and the board was stepping up disposals of non-performing assets and independent investigations of past "irregularities".

# Springer confident of continued growth

By Judy Dempsey in Berlin

Axel Springer, one of Germany's largest newspaper groups, is confident it will match last year's sharp rise in net profits and sales despite sluggish consumer spending and poor economic growth, Mr Jürgen Richter, chairman, told yesterday's annual meeting.

The up-beat forecast reflects the restructuring undertaken by Mr Richter, who was appointed chairman in July 1994 after half the board was dismissed in one of the biggest shake-ups in the industry.

Since then the group, which publishes Bild, the tabloid daily with a circulation of 4.5m, has increased its share of advertising revenue, streamlined the management and cut employees from 14,819 in 1993 to 12,646 in 1995.

The group's more aggressive marketing and management helped lift last year's sales above DM4bn ($2.6bn) for the first time in the group's 50-year history while net profits rose 15 per cent from DM123m in 1994 to DM142m a year later.

Although Mr Richter conceded that expectations for the first five months of this year had not been fulfilled, he said last year's results could be matched.

But analysts yesterday said they wanted to see how Springer would cope with poor consumer spending, especially in Berlin and in eastern Germany. Consumer spending is expected to grow 1-2 per cent this year while Berlin's gross domestic product is expected to grow no more than 1 per cent.

Berlin and eastern Germany are specific markets being targeted by Springer whose west Berlin-based Berliner Morgenpost daily, its flagship in the capital with a circulation of 185,400, is trailing well behind the rapidly growing east Berlin-based Berliner Zeitung which has a circulation of 266,000 and is owned by Grüner + Jahr, the newspaper division of Bertelsmann.

However, Mr Richter said Bild, after a difficult start, has established a foothold in the five east German states and was last year selling an average of 720,000 a day, a rise of 8 per cent on the previous year.

Mr Richter said part of the success was due to the increasing "regionalisation" of the group's newspapers with more emphasis on local issues.This strategy was extended to Springer's Welt am Sonntag, the Sunday paper with a circulation of 374,000.

Jürgen Richter with fellow executive Bernhard Servatius: upbeat

# UK sales underpin improved market share for Scania

By Hugh Carnegy in Stockholm

Scania, the Swedish truckmaker, said yesterday the west European market for heavy trucks had grown by almost 10 per cent in the first five months of the year. Its own market share, meanwhile, had risen from 14.5 per cent to 16.2 per cent.

"It confirms our long-held belief that the top has not yet been reached in the European market," said Mr Göran Löfgren, deputy chief executive. Scania said the numbers of new registrations for its trucks in western European markets had grown by almost 23 per cent, to 12,647, in the January-May period, as overall registrations rose to 78,068, an increase of 9.8 per cent over the same period in 1995.

The overall increase was good news for truck manufacturers, some of which thought the market would level off sooner after reaching record levels in 1995.

The chief exception to the growth trend in Europe was the UK, where Scania said the total market had fallen by 8 per cent to 12,910 registrations in the first five months.

But it said its new registrations in the UK had risen from 2,467 vehicles to 2,701, taking its market share from 17.6 per cent to 20.9 per cent, and establishing the Swedish company as the market leader for heavy trucks in the UK.

Most of Scania's growth and market share increase came in the UK and in its home Nordic markets. In France and Germany, Scania's figures were in line with local markets.

The increase achieved by Scania in the UK was especially striking as it came as Scania was preparing to phase out its old 3-series truck and introduce its new 4-series model range, which is only now going on sale in the UK. Sales usually fall when a company is about to bring a new model to market.

Scania's rivals accuse it of heavy discounting of the 3-series in the UK to grab market share in its biggest single market before the changeover to the 4-series.

Officials at Scania said it had not raised price levels in the UK over the past year, but denied it was offering special discounts. They said many customers wanted to buy the 3-series before it went out of production, and predicted that sales would level off in the UK as the 3-series was phased out.



# Revamp paying off at RWE

By Judy Dempsey

RWE, Germany's largest electricity group, yesterday reported a 10 per cent rise in net profits and a 3 per cent rise in sales for the fiscal year ending June 1996. Its waste disposal and mechanical and engineering divisions showed the strongest growth.

The preliminary results suggest the restructuring programme, particularly in the waste disposal division, and the group's entry into the telecommunications sector are paying off. However, its energy and construction division reported slight falls, reflecting the sharp downturn in Germany's construction industry.

The results also underline the group's resistance to the slowdown in economic growth. RWE's shares closed at DM59.10, down 0.08 pfennigs. Group net profits rose from DM1.09bn in the last financial year to DM1.2bn ($785.9m), while sales rose from DM63.6bn to DM65.5bn.

Sales in the waste disposal sector, until recently one of the weakest divisions, climbed 32.9 per cent, from DM1bn to DM1.4bn. The mechanical and engineering division, which includes telecommunications, jumped 14.2 per cent from DM6.4bn to DM7.3bn.

The construction division reported a 7 per cent rise in sales. Sales in the mineral oil and chemicals division showed little change from the previous year's DM10.6bn.

The two divisions which suffered sales declines were energy and mining.

# French aviation merger still to be resolved

By David Buchan in Paris

Aérospatiale and Dassault Aviation have still to resolve the main issues of ownership and management structure of the joint company they are to form next year, government and corporate officials said yesterday.

Earlier this week, announcing that all "modalities" of the merger would be completed by January 1 1997, the French government sought to give the impression that movement towards fusing Aérospatiale and Dassault was now irreversible. It "congratulated" both companies on the "advances" they had made in their joint "pilot committee".

But the committee's remit was limited to six technical areas – purchasing policy, information technology, quality control, research, production and flight testing.

But the key issues of ownership and management structure were left unresolved. Reports that Mr Serge Dassault, chairman and half-owner of Dassault Aviation, will get about 27 per cent of the new group are thought premature.

The government had shown a desire to give Mr Dassault more than 25 per cent – the level at which a stake is considered an industrial rather than a financial holding and so taxed less heavily on any capital gains – but less than the 33 per cent which in France can constitute a blocking minority.

But the final division will depend on how bank advisers – Lazards for Aérospatiale, Paribas for Dassault and Société Générale for the government – value the two companies' assets. Aérospatiale's ace is its 37.9 per cent stake in the Airbus consortium; in line with British Aerospace's £1bn ($1.5bn) valuation of its own 20 per cent stake in Airbus, Aérospatiale judges its Airbus assets at around FFr15bn ($2.9bn). Dassault Aviation's valuation will be influenced by the price of its shares, even though only 4 per cent of them are traded publicly; the Dassault share price has doubled from FFr399 on February 1, just before President Chirac announced his merger plan, to FFr804 yesterday.

## NEWS DIGEST

# Air France Europe strike hits flights

Air France Europe, the domestic partner of Air France, yesterday announced the cancellation of about 70 per cent of today's flights following a 24-hour strike call by unions. The strike – the second in a week – will coincide with a works council meeting in Paris at which Mr Christian Blanc, Air France chairman, is expected to unveil new plans for the company. These are likely to include a full-fledged merger between Air France and Air France Europe. This follows the apparent scrapping of plans to merge the domestic airline with Air France's European operations after attempts to agree a new remuneration package with domestic pilots failed.

The unions involved said their action was intended to express opposition to what they termed the "plan to demolish the enterprise". They called for the reversal of a recent decision to close 18 Air France Europe routes from October, and for "an immediate halt" to merger plans.

Air France recently reported its first annual operating profit of the 1990s, but intensifying competition on French domestic routes has pushed Air France Europe – the former Air Inter – deep into the red. Mr Blanc warned earlier this year the company would be insolvent in less than two years if nothing were done. In planning for today's strike, Air France Europe has given priority to routes not served by its domestic competitors. Flights between Paris and Corsica, Brest, Biarritz, Mulhouse, Pau, Avignon, Béziers, Limoges and Quimper are expected to go ahead. *David Owen, Paris*

# Schroders buys Carnegie España

Schroders, the UK merchant bank, has acquired the Madrid-based unit of Carnegie International, the broking arm of the Nordic Investment Bank. The move underlines the increasing interest of international financial houses in Spain's capital markets. The price was not disclosed. The takeover of Carnegie España, with a net asset value of £7.5m ($11.7m) at the end of last year, represents a strong commitment by the UK merchant bank to what is expected to be a surge in the privatisation and new listing business under Spain's new centre-right government.

The acquisition, through Schroders Spanish offshoot, could also initiate the staged withdrawal by Carnegie International from southern Europe to concentrate on its niche market in Scandinavia. Talks are understood to be in progress for the sale of the broking firm's units in Italy and in Portugal.

Spain's Popular Party government, which took office last May, has unveiled a liberalisation programme which includes the disposal of state-owned assets worth between Pta2,500bn and Pta3,000bn ($19.5bn–$23.4bn) overall. It also plans fiscal measures, such as an overhaul of capital gains tax, which are expected to further fuel the domestic markets.

In February, Merrill Lynch, the US investment bank, paid £18.5m for FG, the largest of Madrid's independent broking firms. Last month the Dutch merchant bank MeesPierson, a subsidiary of ABN Amro, bought a 30 per cent stake in Beta Capital, a smaller domestic broker. Schroders said yesterday its takeover of Carnegie España would allow it to rapidly develop its local business by diversifying into the secondary and block trading markets. In addition to taking on Carnegie España, Schroders plans to "hire aggressively", according to Mr Javier Salaverri, its chief executive in Spain, to break into the Spanish primary market. *Tom Burns, Madrid*

# Crédit Lyonnais details issue

Crédit Lyonnais, the French state-owned bank, will launch Europe's largest loans securitisation package next week with a value of FFr40bn, executives said yesterday. Institutional investors will be asked to participate in Cyber-Val 07-96, which will have a maturity maximum of five years and be remunerated at normal market rates. The securitisation is made against one third of the loan made by Crédit Lyonnais to EPFR, a vehicle set up by the French state as part of the bank's restructuring package last year to finance the transfer and sale of assets removed from its balance sheet. The loan – totalling FFr118.7bn ($23bn) – is reimbursed at 85 per cent of money market rates and matures at the end of 2014. It will cost Crédit Lyonnais FFr3bn this year and contribute to probable operating losses in its 1996 results.

Executives said the FFr40bn raised would be credited to the bank's treasury. It will help fund refinancing and enable the bank to diversify its sources of finance. The aim is to cut funding costs and provide a better balance of maturities on existing obligations. The company said it would be "more than premature" to suggest the remaining loans to EPFR might be securitised, although the bank has launched several small securitisations to cover other loans over the past two years.

Given that EPFR is underwritten by the French state, the bank is looking for a top credit rating on the securitisation issue, which is being managed by Crédit Lyonnais in conjunction with Merrill Lynch and Morgan Stanley. *Andrew Jack, Paris*

# Setback to EOE Switch launch

A plan by the Amsterdam-based European Options Exchange to offer a unique mix of open outcry and screen-based trading has been set back several months because of installation problems with its Fl 35m ($20.4m) Canadian-designed electronic system. The technology, called Switch, is intended to take price feeds from the existing EOE pits, which will remain, and provide links to remote members of the exchange at bank and other dealing desks.

It will remain separate from the trading mechanisms of the Amsterdam Stock Exchange when the two markets merge as planned from next January. The EOE said the delay of several months in Switch's launch, originally scheduled for mid-year, would not hinder the merger. The Switch hardware is fully installed and the EOE said it was convinced its choice was sound. However, extensive bugs had been found in the trading software during tests. *Gordon Cramb, Amsterdam*

# Last of state's Imi stake for sale

The Italian treasury yesterday put the last of its available shares in Imi, the banking group, up for sale, although it has not yet set a price for the placing of the 7 per cent stake. The treasury invited interested Italian and foreign investors to approach Imi or SBC Warburg, global co-ordinator of the placing. The state will retain about 1 per cent of Imi, made up of bonus shares for those shareholders who invested through the 1994 public offering.

At yesterday's closing price of L12,326, the sale of the stake would raise more than L500bn ($325m), to add to the L3,280bn realised from last month's sale of bonds exchangeable into the treasury's shares in Ina, the insurer. The sale of Imi shares in 1994 was priced at L10,900, and further shares were placed with a group of banks last year. *Andrew Hill, Milan*

■ Mediaset, the Italian media company controlled by Mr Silvio Berlusconi, yesterday closed its public offer of shares two days early, with reservations running at more than four times the number of shares available to small shareholders. *Andrew Hill*

# Surprise departure by Pepsi chief

By Richard Tomkins in New York

PepsiCo, the US soft drinks, snacks and fast food group, has lost the head of its domestic and international drinks business following a surprise decision by Mr Christopher Sinclair to quit as chairman and chief executive of the Pepsi-Cola unit.

Mr Sinclair, 45, was appointed to the post less than four months ago amid a round of management changes that accompanied the promotion of Mr Roger Enrico to chief executive.

Previously, Mr Sinclair was head of PepsiCo's international food and drinks business. He was closely associated with Project Blue, PepsiCo's recent attempt to fight back against Coca-Cola in international markets by relaunching Pepsi-Cola in a blue can.

Mr Sinclair has been replaced by Mr Craig Weatherup, 50, who had been PepsiCo's president since March and who was previously head of Pepsi-Cola's North American business. The changes are immediate.

Mr Enrico said that Mr Sinclair had decided "he would prefer to spend more time with his young family rather than continuing the constant travel required to lead a worldwide beverage business".

However, there was speculation yesterday that Mr Sinclair may have felt frustration at having been passed over for the chief executive's job in favour of 51-year-old Mr Enrico. Mr Sinclair also faced a difficult task in trying to compete with Coca-Cola's increasingly dominant position and may have felt he stood a better chance of carving out a career with another company.

Wall Street reacted badly to the news, announced after Tuesday's market close. PepsiCo's stock was down $¾ to $34¾ in early trading yesterday.

# Union Pacific set for takeover of Southern Pacific

By Richard Tomkins in New York

The biggest railroad merger in US corporate history looked set to go ahead yesterday after a federal review board gave the green light to a $3.9bn takeover of Southern Pacific Rail by Union Pacific.

The combined railroad, measuring about 31,000 miles, will be slightly larger than the next biggest US railroad: the Burlington Northern Santa Fe network, created last year by a $4.0bn takeover of Santa Fe Pacific by Burlington Northern.

It will spread across 25 states in the western two-thirds of the US, with links to Canada and Mexico. In 1995 its two constituent companies had combined freight revenues of $10.6bn. They do not operate passenger trains.

The Surface Transportation Board yesterday unanimously approved the merger without requiring the combined entity to sell off chunks of its network, as some opponents of the merger had sought.

The main condition of the merger is that the new entity will have to give extensive rights of access to its tracks by Burlington Northern Santa Fe where this is necessary to maintain competition between city pairs. Opponents of the deal had included shippers and communities which feared a merger could result in a reduction or elimination of competition, bringing the threat of freight rates.

However, the Surface Transportation Board appears to have been swayed by arguments that a combined entity would provide substantial savings to the public because it would operate more efficiently than two separate companies.

Union Pacific and Southern Pacific said a merger would save more than $500m a year in costs because it would allow for the elimination of overlapping administrative functions and railroad equipment.

They said it would also allow them to offer customers faster services on many routes because they would be able to use one railroad for services that had previously required connections between two separate railroads.

Ms Linda Morgan, chairwoman of the Surface Transportation Board, called the board's decision "a balanced one" that ensured the benefits of the merger while ensuring strong competition.

Union Pacific – which last year bid for Santa Fe, only to be pipped by Burlington Northern – said it was satisfied with the ruling in spite of the attached conditions.

# Friendship the basis of ADT deal

## Entrepreneurial new chairman gets the chance to make a new business-building start

It has been an interesting and unexpected week for shareholders in ADT, the security and car auction company. The $4.4bn agreed bid for their company from Republic Industries boils down to one central proposition: that they should swap their chairman, Mr Michael Ashcroft, for an entrepreneur of a somewhat different stamp, Mr Wayne Huizenga.

In the past 30 years, Mr Huizenga has built two hugely successful businesses from scratch – WMX Technologies, the world's biggest garbage collector, and the Blockbuster video chain. Now 58, he aims to start again, using Republic as a vehicle; and the ADT deal is his first big move.

Mr Ashcroft, British in origin, runs the Bermuda-registered ADT out of Florida, and has extensive private interests in central America. His approach to business has always been complex. That and an instinct for privacy has puzzled and, at times, alienated the investing community.

This makes him slightly implausible as head of a large public company. The Republic offer would release him back into a more natural habitat: one of smaller deals and – he hopes – bigger paybacks.

But first Mr Ashcroft has undertaken to oversee the immediate merger of the two businesses, a process which he estimates should take a maximum of 18 months.

Since Mr Huizenga's arrival a year ago, Republic has acquired a large number of companies in electronic security and used car sales. These are mostly very small, and scattered across the US. Mr Ashcroft's job will be to incorporate them into ADT's nationwide operation. The question remains of why Mr Ashcroft should have decided to sell his business in the first place. The reason he presents is simple enough. He has been a friend of Mr Huizenga for over a decade. Mr Huizenga, he says, approached him with an offer he could not refuse. From ADT's viewpoint, the rationale for combining the businesses is straightforward. Unlike Republic's scatter of local businesses, it has a national infrastructure in both security and car auctions and a national brand.

Therefore, it claims to be able to accommodate several times the growth rates which Republic's small and geographically isolated businesses could handle on their own. At the same time, Republic's auto business would save a claimed $100m in planned capital spending by linking up with ADT's retail outlets. Mr Huizenga's reputation would also allow the business to expand more rapidly than ADT could on its own. Republic's shares enjoy a far higher earnings multiple than ADT's, a fact which Mr Huizenga has turned to account by financing all his acquisitions to date with stock. ADT is also burdened by its debt mountain, which, though less daunting than in the early 1990s, still stands at $800m net.

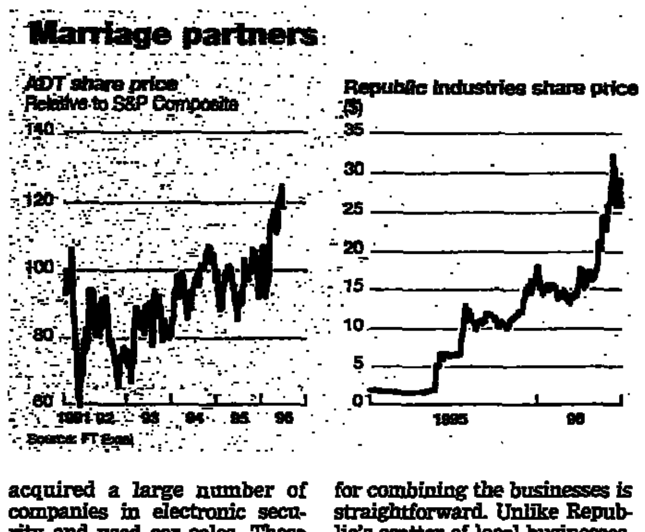
Once the merger is effected, Mr Ashcroft's remaining task will be to provide a business plan for the next 3-5 years. Thereafter, he will remain on Republic's board. More important, he intends to retain the bulk of the Republic shares he will receive on the deal, worth in total close to $300m.

That apart, he will be free to start again. In the first instance, he will concentrate on B.H.I Corporation, his Belize-based company with interests in banking and construction in central America and the Caribbean. The company is quoted on Nasdaq, but Mr Ashcroft holds a controlling 65 per cent stake worth, by his estimate, some $75m.

Thereafter, he says, there are various unspecified service industries in the US ripe for consolidation. His intention is not to set up a master company in succession to ADT, but to work on a more piecemeal basis, often in co-operation with others, reasoning that small investments are easier to triple or quadruple than big ones. "I intend to give up size for capital growth," he says... "putting up capital for individuals for various service businesses."

This will sound familiar to British investors with long memories. In the 1980s, Mr Ashcroft's investments were baffling in their variety – from Christies the auctioneer to the Miss World beauty contest. At the same time, his published accounts were notoriously opaque. If he has now determined to operate as a private individual, it seems an improvement from every point of view.

**Marriage partners**




ADT chairman Michael Ashcroft

**Mr Huizenga comes with a formidable reputation. He has built two hugely successful businesses from scratch: WMX Technologies and the Blockbuster video chain**

# Orient Express buys Reid's

By Peter Wise in Lisbon

Reid's in Madeira, the celebrated hotel where Winston Churchill painted and George Bernard Shaw learned to dance, has been sold by Blandy Brothers to Orient Express Hotels.

Orient Express is a wholly-owned subsidiary of Sea Containers, the Bermuda-based leisure, ferry and container leasing group.

No price was disclosed but reports in Portugal said it was sold for Es4.5bn ($28.8m).

Reid's, which opened in 1891, was bought in 1936 by Blandys, a British family group established in Madeira since 1811.

"Selling Reid's was not an easy decision," Mr Richard Blandy, chairman, said yesterday.

"But its future as a luxury hotel is best served being part of a larger group such as Orient Express Hotels."

The Blandy group, whose operations include tourism, property development and madeira wine, is to use the proceeds to consolidate existing shareholdings and invest in new areas in Madeira.

Reid's, a 167-room hotel built on a cliff top overlooking Funchal bay, charges an average room rate of just over Es40,000 a night, the highest in Portugal.

The hotel's occupancy rate in the first half of 1996 was almost 70 per cent.

# Hancock to fill Apple post

By Louise Kehoe in San Francisco

Apple Computer has announced the appointment of Mrs Ellen Hancock as executive vice-president of research and development and chief technology officer, a position that has been vacant for the past few months.

Mrs Hancock joins Apple from National Semiconductor where she recently resigned her position as one of the chipmaker's three chief operating officers. She had been lured to National a year ago by Mr Gil Amelio. He was then National Semiconductor chief executive and is now chief executive at Apple.

Previously, Mrs Hancock was the most senior female executive at International Business Machines where she was a group executive and senior vice president. She was responsible for three of the company's divisions, including applications software, networking hardware and networking software, which account for revenues of over $10bn.

At Apple, Mrs Hancock will be responsible for guiding the struggling personal computer company's technology development efforts as well as technology alliances with other companies. She will oversee Apple's research laboratories as well as its software and networking divisions.

Mrs Hancock's appointment comes as Apple is battling to regain its momentum. New market research data suggest that US sales of Macintosh computers have fallen sharply.

A survey of US PC dealers published by Computer Intelligence, a market research firm, says sales of Macintosh computers dropped 30 – 50 per cent in April and May from year-ago levels.

# Bausch & Lomb charge

By Maggie Urry in New York

Bausch & Lomb, the struggling contact lens and Ray-Ban sunglasses group has announced it would take a $15m pre-tax restructuring charge in the second quarter, which would cut earnings per share by 19 cents.

The company, which has had to restate its earnings for 1993 and 1994 after the Securities and Exchange Commission investigated alleged accounting irregularities, had already taken a $27m charge in the fourth quarter of last year.

# Mexican companies ready to test confidence of foreign investors

More than a dozen Mexican companies are planning a bold return to the global equity markets with primary share offerings totalling more than $1.5bn over the next six months.

The equity issues appear to be driven by the continued high cost of bank credit in Mexico as well as the gradual recovery in share prices following the stock market meltdown in 1995.

Most corporations want to raise equity capital to retire expensive loans. Others are keen to tap this source of finance to recapitalise businesses that were bled by last year's financial crisis.

The companies include Altos Hornos de Mexico (Ahmsa), the country's largest steel producer, which is planning a $250m stock issue to help repay short-term debts of $400m.

Desc, a large industrial conglomerate whose divisions including chemicals, car parts and food-processing, is aiming for a $110m equity offering.

The two companies have already filed their registration statements with the US Securities and Exchange Commission and will be embarking on road shows in Europe and the US this month.

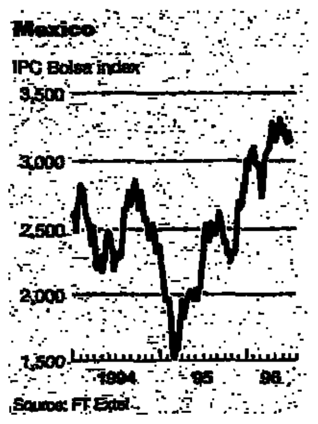
Celanese, another chemicals manufacturer, Autlan, a mining group, and Autrey, a pharmaceuticals distributor, are also planning stock issues. Gruma, the parent company of maize flour producers Maseca, may raise $150m with a global equity offering if negotiations to sell part of Maseca to Archer Daniels of the US do not bear fruit.

At least two banks, Banamex, Mexico's largest, and Serfin, the third-largest, are analysing the best moment to launch new stock issues to recapitalise their banks.

The size and number of forthcoming share offerings have surprised equity analysts in Mexico City.

Following last week's withdrawal of a planned $340m stock issue by Cemex, the Mexican cement multinational, many analysts have begun to doubt whether the issues will in fact be successful.

"Mexico is just beginning to regain the confidence of foreign investors," says Mr Gerardo Kopka Sanchez of the Mexican brokerage Finamex.




"We question whether there is sufficient demand to absorb so much paper in such a short space of time."

Ahmsa, with a current market capitalisation of about $1bn, is hoping to attract foreign interest in its $250m equity offering with the lure of its profitable steel exports. Grupo Acerero del Norte (GAN), controlled by the Autrey and Ancira families of Monterrey, owns 75 per cent of the steel maker.

Recently, however, GAN has come under criticism for "borrowing" $200m from Ahmsa to finance other investments and then cancelling the debt with the sale to Ahmsa of GAN's iron ore and coal mines.

According to AB Asesores Moneda, a Spanish financial consultancy, Ahmsa took over 4bn pesos ($530m) of new liabilities and only 500m pesos worth of assets when it "purchased" GAN's mining division.

"Relief from the company's already delicate financial position is thus still far away," the Spanish consultants concluded.

Ahmsa's total debt stood at about 11bn pesos in March, against annual sales of 7.9bn pesos in 1995.

Desc, the industrial conglomerate, may use the proceeds of its $110m stock issue to retire part of its $290m short-term debt.

The company, however, also needs to raise cash to help recapitalise Grupo Financiero Invermexico, the financial group, in which it owns a 10 per cent stake.

Invermexico and its bank, Mexicano, need to raise approximately $550m before the end of the year to shore up capital and reserves.

**Leslie Crawford**

# Cheung Kong global offer to net HK$4bn

By Louise Lucas in Hong Kong

Cheung Kong Infrastructure Holdings (CKI), a unit of Cheung Kong, the property development company controlled by Mr Li Ka-Shing, is to net some HK$4.16bn (US$53.74m) from its global offering, assuming over-allotment options are taken up. The initial public offering in Hong Kong, which kicks off today, has been priced at HK$12.65 a share, the company said yesterday.

The price tag is at the highest end of the price range, suggesting healthy demand for the issue. Only 10 per cent, or 29.78m shares are being offered in Hong Kong; the remainder have been placed internationally. If the new issue is more than three times subscribed, additional shares – to a maximum 14.89m – will be made available.

The number of extra shares offered will be calculated on the basis of one-third of the total excess number of shares applied for above 89.34m.

The international offer also includes an over-allotment option of a further 44.2m shares. Assuming this is exercised, the global offer will represent about 35 per cent of the company's enlarged issued share capital.

Of the net proceeds of HK$4.16bn, some $1.3bn will be used to meet capital contribution requirements of existing road and power businesses.

CKI is the latest infrastructure spin-off to hit the market, and more are in the pipeline. Analysts reckon the Cheung Kong name will ensure the issue is successful – although, on fundamentals, many prefer New World Infrastructure, which was hived off from property developer New World Development at the end of last year.

CKI's portfolio is seen as more restricted and at present it is heavily dependant on its cement and concrete activities in Hong Kong.

The company said yesterday it expected to post earnings growth of some 28.2 per cent this year – from HK$569.04m last year to HK$728m for the year to December 31. CKI said it had invested HK$1.4bn in interests in joint ventures to build and operate a number of toll roads and toll bridges in China.

It has also obtained an unsecured bank loan facility of HK$2.4bn, of which HK$2.1bn will be used to repay borrowings from the shareholders of the companies that comprised the group before the restructuring.

In addition, the Cheung Kong group will make an unsecured advance of HK$1.8bn to the infrastructure group.

# Murdoch and Son break the cosy mould

## Japanese broadcasting has been shaken by the incursion of an alien, writes Michiyo Nakamoto

Mr Rupert Murdoch, who heads News Corporation, and Mr Masayoshi Son, who founded Japan's largest computer software distributor, make a formidable pair.

The two men, who met for the first time only a few weeks ago, are renowned for their business acumen and their preference for aggressively building up their businesses through ambitious acquisitions.

So the recent announcement that Mr Murdoch and Mr Son plan to join hands and take a 21.4 per cent stake in Asahi National Broadcasting, one of Japan's five leading broadcasters, sent shock waves through the Japanese media and prompted widespread fears that the days of the cosy salon to which the industry has long become accustomed were numbered.

News Coporation and the company founded by Mr Son, Softbank, will set up a joint venture to buy a Y41.75bn ($383m) stake from Obunsha Media, a subsidiary of publisher Obunsha, that was set up to hold the shares in the broadcaster, commonly known as TV Asahi. It will be the first time a foreign company has held a significant stake in one of the five large broadcasters.

The Japanese media reaction has been characterised by alarm at the prospect of an alien element wedging itself into an industry that has long been protected from outside competition and amazement at how the two have managed to achieve what was considered unachievable. "They will aggressively work to squeeze profits (out of TV Asahi)," the Bungei Shunju, a popular weekly magazine quoted one economic commentator as saying. The magazine went on to ask whether a Japanese company, not to mention a TV broadcaster, could bear such rough western-style treatment.

Like Mr Murdoch, Mr Son is known for his bold business moves and his huge ambitions.

Mr Son, a California-educated entrepreneur of Korean descent, has, over the past 14 years, built up the company he founded into Japan's largest distributor of computer software and peripherals for PCs and the largest Japanese publisher of computer-related magazines and books.

Parent sales have surged from Y64.1bn in 1994 to Y140.3bn in the year to March 1996 while recurring profits, before extraordinary items and tax, have jumped from Y2.8bn to Y13.1bn in the same period.

This year, the company acquired Ziff-Davis, the world's largest publisher of computer magazines, for Y180bn. The acquisition, which drew public attention to Mr Son's business ambitions, followed a $2.8bn acquisition spree in the US, which was funded by proceeds from its flotation on Japan's over-the-counter market in 1994, bank borrowings and a new share issue.

Mr Son's acquisitive streak was confirmed with the latest deal, which takes the company into another new business field. "We believe that the merger of the media will continue to progress and Softbank would like to take aggressive steps to take part in this process," Mr Son said last week.

United aggression: Rupert Murdoch (left) and Masayoshi Son

Mr Son brushes aside concerns that the company is overstretching itself by putting up half the purchase price. Softbank has more than Y100bn of its own funds and, when Y70bn worth of convertible bonds are turned into shares, it will have a debt-to-equity ratio of one-to-one, he points out – "For Softbank, the price is quite manageable."

He also says that, despite criticism in the Japanese press that News Corporation and Softbank are paying an excessive sum for their stake in TV Asahi, the price of Y41.75bn is far from unreasonable.

Analysts appear to agree. While the price the News Corporation-Softbank venture is paying values the whole of TV Asahi at Y195.1bn, the share price of TBS and NTV, the only listed key stations in Japan on the day before the news broke, values the two broadcasters at Y318.2bn and Y404.2bn respectively – so the price is not high, says Mr Hironobu Sawake, industry analyst at Nikko Research Center.

"If anything, I'd suggest it is quite a good deal," says Mr Paul Smith, industry analyst at James Capel in Tokyo, whose valuation of Asahi had been Y250bn. But what makes the deal so astounding to the Japanese media is the fact that, price aside, it was done at all.

There is no doubt that for anyone interested in offering TV services in Japan, a stake in a terrestrial broadcaster would be very attractive.

As a business, broadcasting generates cash. Investment in production facilities is not much, year-in, year-out. The company produces a fixed number of programmes and, as demand increases, the unit price of the product goes up, bringing nice economies of scale, notes Mr Smith.

If the product of the broadcaster can be used elsewhere – as in the multi-channel digital service that Mr Murdoch and Mr Son plan to launch through their joint venture – the benefits are clear. "If you do nothing with the business, you generate cash. If you do anything with the business and bring synergies, it's a very good business," Mr Smith says.

The assets of TV Asahi also make it an attractive investment, particularly for a large shareholder interested in using those assets to further another business, as the Murdoch-Son team no doubt are.

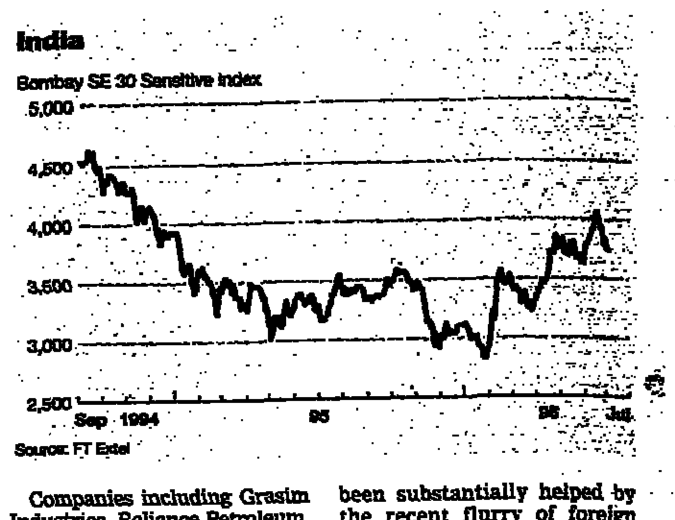
"Broadcasters in Japan are allowed to use the air waves free of charge," notes Mr Sawake. Japanese terrestrial broadcasters also control much of the domestic TV content. An industry survey found that 38 per cent of production for the five key terrestrial broadcasters was done in-house with the broadcasters keeping the copyright on about 11 per cent of overall programmes.

Although the private Japanese broadcasters all offer more or less standard TV fare, TV Asahi's news gathering capabilities could become important for new types of media, particularly in the light of a recent government study that forecast electronic newspaper broadcasting in Japan could grow into an Y80bn market in the year 2000 and Y200bn in 2005.

Mr Son emphasises that the News Corporation-Softbank team wants "a loose alliance rather than control" of TV Asahi. But as the industry braces itself for multi-channel services, Japanese broadcasters hope that none of their own large shareholders feel the need to follow Obunsha's lead.

# Climate is brightening for Indian euro-issues

## A reformist government and a foreign led rally in equities has created change




The becalmed Indian euro-issue market is poised for a gust of fresh offerings in the next few months with cash-strapped companies seeking to raise between $1.5bn-$2bn in a spate of Global Depository Receipt (GDR)and convertible bond issues before the year-end.

No fewer than 26 Indian companies have declared plans for GDR or bond issues which could raise more than $1.5bn. "You're going to see quite a substantial burst of primary issues between now and the end of the year – certainly in excess of $1bn and it could even approach $2bn," says one Bombay-based banker.

However, Bombay and foreign bankers say not all may reach fruition and the fate of many, from smaller or second rank companies, will depend on whether the Indian equity market sustains its recent buoyancy.

There are also concerns at the ability of the new coalition United Front government to contain the growing fiscal deficit, which amounted to 5.9 per cent of GDP in 1995.

Earlier this week, Jardine Fleming priced a $50m GDR issue for Crompton Greaves, India's largest private electrical engineering company, reporting that the issue had been nine times subscribed.

Four other companies are well into London and New York roadshows for offerings totalling $260m. These include Mahindra & Mahindra, the cars group, for a convertible bond ($100m) led by Goldman Sachs, Saw Pipes, a pipe engineering group ($60m), led by Paribas, and Gujarat Alkalies, a chemicals company ($50m), led by HSBC James Capel.

Among the bigger offerings set for the road, or being discussed with bankers, are those from ICICI, a state investment group, for $200m, IPCL, the state petrochemicals group, for $175m, and an offering between $300m-$500m from the State Bank of India.

Companies including Grasim Industries, Reliance Petroleum, Century Textiles and Telco have also said they aim to enter the market this year, each in offerings expected to exceed $100m.

Indian companies raised more than $5bn through GDR and bond issues between 1994 and early 1995, after the liberalising former Congress Party government permitted companies to tap such funds. The market died in 1995 as the underlying Indian equity market slumped, and on political uncertainty before this year's elections.

**No fewer than 26 Indian companies have declared plans for GDR or bond issues which could raise more than $1.5bn.**

So far this year, only four companies, SAIL, the state steel group, Larsen & Toubro, the engineering company, BSES, the private Bombay-based power company, and Indo Rama Synthetics, a textiles group, have made issues, to a combined total of $435m.

However, the apparently reformist tenor of India's United Front coalition government, combined with a foreign-led rally in Indian equities have suddenly brightened the climate for new issues, which are being eagerly sought by Indian companies emerging from a tough liquidity crunch over the past 18 months.

Bankers say the climate has been substantially helped by the recent flurry of foreign investment into Indian equities, which has pushed the Bombay Sensex index from a year opening 2,800 points to more than 3,800 on the back of almost $2bn of new foreign inflows – taking the cumulative total of foreign investment into Indian equities beyond $6bn since markets were opened in 1993.

With corporate earnings per share growth for the past fiscal year of 33 per cent and prospective earnings growth put by analysts at 15 to 17 per cent, bankers say India has been underpriced in the region.

"India is on a discount on an earnings basis relative to other Asian markets – it looks good value," says Mr Nicholas Butt, head of investment banking at Jardine Fleming in Bombay.

But bankers say pricing is likely to be tighter in the present round of issues than the headier days of 1994, when enthusiasm for newly-available Indian paper led to GDRs sometimes fetching up to 30 per cent premiums over the underlying Indian share price.

The pricing of this year's L&T issue, at a premium of around 5 per cent, is seen as a closer guide to prices available to better known and judged issuers.

GDRs offer foreign investors the advantage of a wholly institutionalised, deeper and more liquid market in Indian stocks than direct investment in the local market, which remains paper-based and fraught with settlement problems. GDR investments also avoid local capital gains tax.

**Mark Nicholson**





Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales.

Provisional Prices for Trading on 04.07.96 / Final Prices for Trading on 05.06.96

| 1/2 hour period ending | Pool purchase price £/MWh (Provisional) | Pool purchase price £/MWh (Final) | Pool selling price £/MWh (Final) |
|---|---|---|---|
| 0030 | 12.14 | 16.17 | 17.63 |
| 0100 | 11.84 | 16.17 | 17.63 |
| 0130 | 11.84 | 16.17 | 17.63 |
| 0200 | 8.94 | 16.17 | 17.63 |
| 0230 | 8.94 | 16.17 | 17.63 |
| 0300 | 8.94 | 16.17 | 17.63 |
| 0330 | 8.94 | 16.17 | 17.63 |
| 0400 | 8.94 | 16.17 | 17.63 |
| 0430 | 8.94 | 16.17 | 17.63 |
| 0500 | 8.92 | 16.17 | 17.63 |
| 0530 | 8.92 | 8.98 | 8.98 |
| 0600 | 8.94 | 11.84 | 13.30 |
| 0630 | 8.94 | 11.84 | 13.30 |
| 0700 | 12.25 | 16.49 | 17.95 |
| 0730 | 15.95 | 16.98 | 18.48 |
| 0800 | 17.24 | 17.84 | 19.53 |
| 0830 | 21.56 | 19.84 | 21.85 |
| 0900 | 25.35 | 34.79 | 37.21 |
| 0930 | 30.23 | 38.52 | 41.30 |
| 1000 | 33.05 | 38.74 | 42.80 |
| 1030 | 33.88 | 40.18 | 43.37 |
| 1100 | 35.08 | 40.72 | 44.05 |
| 1130 | 37.80 | 42.97 | 46.83 |
| 1200 | 51.20 | 55.73 | 60.03 |
| 1230 | 57.56 | 55.20 | 59.23 |
| 1300 | 54.53 | 52.03 | 55.37 |
| 1330 | 31.20 | 38.10 | 40.78 |
| 1400 | 28.68 | 37.03 | 39.49 |
| 1430 | 26.71 | 36.65 | 39.02 |
| 1500 | 25.32 | 36.46 | 38.79 |
| 1530 | 24.57 | 36.52 | 38.90 |
| 1600 | 28.22 | 37.52 | 40.16 |
| 1630 | 28.98 | 39.32 | 42.38 |
| 1700 | 35.20 | 45.96 | 49.19 |
| 1730 | 32.39 | 44.16 | 46.88 |
| 1800 | 27.28 | 41.50 | 43.85 |
| 1830 | 20.25 | 17.78 | 19.36 |
| 1900 | 17.77 | 17.24 | 18.73 |
| 1930 | 16.92 | 17.01 | 18.48 |
| 2000 | 16.87 | 16.89 | 18.35 |
| 2030 | 16.88 | 16.86 | 18.35 |
| 2100 | 16.42 | 16.62 | 18.09 |
| 2130 | 16.42 | 16.88 | 18.39 |
| 2200 | 19.97 | 25.92 | 27.39 |
| 2230 | 19.97 | 25.92 | 27.39 |
| 2300 | 19.97 | 25.92 | 27.39 |
| 2330 | 16.42 | 24.08 | 25.55 |
| 2400 | 16.10 | 16.49 | 17.95 |

Prices are determined for every half-hour in each twenty-four hour period. Prices are in pounds per megawatt-hour, rounded to two decimal places. To convert prices to pence per kilowatt-hour the decimal point should be moved one place to the left, eg £18.88/MWh becomes 1.888p/kWh. Provision for the determination of pool prices is made in the Pooling and Settlement Agreements which govern the operation of the electricity pool in England and Wales. The Pool Purchase Price is the basis of the majority of payments made to generators in respect of electricity traded through the pool. The calculation of pool prices is a highly complex process the product of which is subject to revision or correction (and sometimes major alterations) until final pool prices are determined approximately twenty-four days after the day of trading. Accordingly, due to the possibility of such revision and/or correction, no reliance should be placed upon provisional pool prices for any day being the same as final pool prices for that day. Final pool prices are also capable of revision. Pool Selling Price is the price paid by purchasers of electricity under the pool trading arrangements. It is dependent upon the determination of Pool Purchase Price. Further information on pool prices is provided on behalf of the Pool by Energy Settlements and Information Services Limited. Anyone wishing to receive such information should telephone 0118 945 6789 between 8:30am and 5:15pm Monday to Friday.

©Energy Settlements and Information Services Limited

Sales growth of just 2.7% in last eight weeks is well below main rivals

# Sainsbury losing customer battle

By Christopher Brown-Humes

J. Sainsbury yesterday provided further evidence that it is losing the supermarket battle for customer spend, when it reported sales growth figures well below those of its main rivals.

Mr David Sainsbury, group chairman, also warned shareholders that first half profits would be hit by gross margin pressure and service improvement costs, continuing the trend of last year's second half.

Analysts responded by downgrading profit forecasts and the shares shed 5p to 377p.

Like-for-like sales growth at the core supermarket business has averaged just 2.7 per cent, including petrol, over the last eight weeks. This is significantly below the group's main rivals, Tesco and Safeway, who have achieved growth of about 7 per cent and 5.2 per cent respectively in recent weeks.

Mr Dave McCarthy, food analyst at BZW, said: "People are still looking at Tesco and Sainsbury as if they are Tweedledee and Tweedledum. It's not like that any more. One has good sales growth and one hasn't." It means Sainsbury is not managing to keep pace with food price inflation and is seeing a slowdown, rather than an acceleration, in sales growth despite its efforts to reverse the problem. It has shaken up senior management, taken on 5,000 staff to improve service, and two weeks ago launched a nationwide loyalty card. Despite these efforts, many in the City feel it has been slow to respond to dynamic and innovative moves by competitors.

Like its rivals, Sainsbury has been badly hit by the petrol price war. Excluding petrol, supermarket like-for-like sales growth has averaged 3.3 per cent since early May, whereas growth at Safeway in the last 13 weeks has been 6.4 per cent.

The group also said its gross margin, which fell 0.7 percentage points in the second half of last year, remained at this depressed level.

Sainsbury last year reported its first fall in profits for 22 years, with pre-exceptional profits of £764m ($1.17bn), down 5.4 per cent. BZW is expecting a further fall this year, cutting its forecast yesterday to £740m from £765m. Mr McCarthy said: "Sainsbury's problems are going to take longer to fix and will be more expensive to fix than the City has realised."

The group won shareholder authorisation to buy back up to 10 per cent of its shares but said it had no immediate plans to use it.

Trevor Humphries

David Sainsbury (centre) with shareholders who were told yesterday that first-half profits would be hit by gross margin pressure

# Wickes reaches bank loan deal

By Andrew Taylor and Jim Kelly

Banks have renegotiated loan facilities made to Wickes, the troubled DIY retailer which last week warned that it had overstated profits due to accounting irregularities.

A syndicate of 11 banks and Trade Indemnity, the credit insurer, announced yesterday they had agreed to replace a £18m ($27.5m) facility. Two other loan facilities for £50m and £30m have been capped preventing Wickes from drawing further funds.

The deal will ease worries of suppliers concerned about Wickes' ability to meet its obligations after lines of credit were temporarily frozen by the banks pending clarification of its financial position.

Barclays, which is leading the syndicate, said yesterday: "We believe that Wickes' problems can be resolved in the near future." It said bankers and accountants had worked over the weekend to "assess the cash flow position of Wickes's core UK operation".

*Mr Michael von Brentano*, who was appointed chairman of Wickes following the resignation of Mr Henry Sweetbaum, said: "We have made it plain that the accounting issues which have been uncovered should not detract from the fact that our operating businesses are sound."

Latest estimates suggest that Wickes' operating profits of £36.7m may have been overstated by £20m-£25m last year.

It is thought that the company, which normally pays suppliers at the start of each month, was facing a technical breach of its loan covenants. It was able to give the banks sufficient reassurance to allow loans to be renegotiated. The new £18m facility is thought to carry a higher interest rate than under the old agreement.

Wickes has said it will not pay its 1.5p final dividend because of uncertainty about its operating profits.

Price Waterhouse and Linklaters & Paines have been instructed to investigate the circumstances giving rise to the inaccuracies in Wickes' accounts – as well as the group's financial condition.

The inquiry is concentrating on the accounting treatment of rebates paid to Wickes by suppliers. In some instances benefits, to cover several years of trading, were brought forward and included in a single year's profits.

# US insurer plans move on Lloyd's agencies

By Ralph Atkins, Insurance Correspondent

The St Paul Companies, the Minnesota-based insurance group, is negotiating to buy two agencies managing syndicates at Lloyd's of London.

The deal would mark a further involvement by overseas insurers in Lloyd's, which hopes this August to implement its recovery plan and secure its financial future. US and Bermuda-based companies have been the most active investors at Lloyd's in recent months.

St Paul intends to acquire 100 per cent of the non-voting shares and a third of the voting shares in Cassidy Davis and Gravett & Tilling. Because St Paul also owns an insurance broking business, Lloyd's regulations prevent the US insurer owning more than a third of the voting rights.

Details of the purchase price have not been disclosed but it *is not expected to be material* for St Paul.

Mr Douglas Leatherdale, chairman, said the group aimed "to consolidate and strengthen relationships already established by St Paul's participation in syndicates managed by the two agencies. It also furthers our corporate vision of being a global property-liability company".

St Paul indicated that it hoped also to increase the amount of business it underwrites at Lloyd's as a corporate investor but said the size and allocation of any extra commitment had not been decided.

# Cray passes dividend and restructures after £19m loss

By Christopher Price

Cray Electronics yesterday reported deepening losses and passed its dividend as the data communications group announced further restructuring provisions.

The company, which reported a collapse in profits at the same stage a year ago, unveiled pre-tax losses of £19.4m ($29.7m) against £800,000 profits for the year to April 30.

Turnover was flat at £263m. Operating losses from continuing operations amounted to £3.5m, against profits of £10m. The shares fell 8¼p to 41p.

The losses included provisions of £17.8m, covering the closure of the production sites at Gosport and Swindon, the restructuring of the core Cray Communications datacoms business and charges relating to surplus property. Around 100 jobs will be lost as a result.

Cray is also selling its P-E International management consultancy business to Lorien for £7.8m.

The disposal and the decision to base all of the group's UK operations at its Watford site would allow Cray to focus on its core interests, according to Mr Jon Holland, chief executive. He remained "hopeful" the company would return to the black in the current year.

Two-thirds of the provisions will be spent on rationalising Cray Communications. Mr Holland said the product line had been pruned from 40 to six, including the introduction of new products which had recently won industry awards. Orders were 3 per cent ahead of the same period last year.

In addition, a strategic partnership had been struck with Cisco and Scitec to give Cray Communications more flexibility in selling integrated network solutions.

Pre-tax losses for the division were £8.3m, against profits of £3.2m. Sales declined slightly to £150m.

Cray Systems, the software business, saw profits fall by 30 per cent to £4.8m on flat turnover of £77m. Increased research and development focused on several product developments augured well, according to Mr Alec Daly, chairman.

Borrowings fell from £30m at the interim stage to £17m, while gearing fell from 69 per cent to 43 per cent. Losses per share were 8.4p, against 0.3p. Mr Daly said dividend payments would be resumed "when appropriate".

The company also announced the departure of Mr Roger Dye as finance director after just 10 months in the post. He is to take up a similar position with Transport Development Group. Mr Simon Hunt, a former managing director of ACT Group, is to replace him.

● Lorien, the human resources group and one of the first companies to join Aim, yesterday launched a 1-for-1 rights issue at 250p to raise £14.25m to pay for the Cray acquisition.

The group also announced a 45 per cent rise in interim pre-tax profits to £600,000 on sales 56 per cent ahead at £18m.

## RESULTS

| | | Turnover (£m) | | Pre-tax profit (£m) | | EPS (p) | | Dividends: Current payment (p) | Date of payment | Corresponding dividend | Total for year | Total last year |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Court Cavendish | Yr to Apr 30 | 28.1 | (23.3) | 4.62 | (5.08♥) | 18 | (21.3) | 3.52 | Aug 15 | 3.05 | 5.3 | 4.6 |
| Cray Electronics | Yr to Apr 30 | 262.8 | (264.8) | 19.4L♠ | (0.835) | 8.4L† | (0.3L) | nil | - | 1.5 | nil | 2.5 |
| Gardiner | 6 mths to Apr 30 | 48.4 | (44.2) | 2.36 | (2.07) | 1.45 | (1.28) | 0.3 | Oct 11 | 0.27 | - | 0.85 |
| GEC | Yr to Mar 31 | 10,990 | (10,330) | 981♠ | (891♠) | 22.6† | (20.6) | 9.41 | Oct 1 | 8.42 | 12.51 | 11.37 |
| Lorien Φ | 6 mths to May 29 | 18 | (11.5) | 0.6 | (0.414) | 7.05† | (6.17) | 2.5 | - | - | - | 3.8 |

| Investment Trusts – | | NAV (p) | Attributable Earnings (£m) | EPS (p) | Current payment (p) | Date of payment | Corresponding dividend | Total for year | Total last year |
|---|---|---|---|---|---|---|---|---|---|
| BZW Convertible | 3 mths to June 30 | - | - | - | 1.5⁑ | July 26 | 1.5 | - | 7.8 |

Earnings shown basic. Dividends shown net. Figures in brackets are for corresponding period. ♠After exceptional charge. ♥After exceptional credit. †On increased capital. ΦAim stock. ⁑Third interim; makes 4.5p to date.

# Sherwood warns of shortfall

By Geoff Dyer

*Shares in Sherwood* Group fell 11 per cent yesterday after the clothing and lace manufacturer said that weak consumer demand in continental Europe would depress this year's profits.

The Nottingham-based group, which said that this year's first half profits would be well down, is to take a £500,000 ($765,000) provision for further restructuring in Germany and the Netherlands.

The statement prompted analysts to reduce their forecasts for 1996 profits from £18m-19m to £14-15m. The shares closed 9p lower at 73p.

Mr David Parker, chairman, blamed the drop in profits on depressed consumer spending and intense competition in continental Europe in the lingerie and lace markets.

Lepel, the Italian lingerie manufacturer which was acquired in 1993, had suffered from reduced margins after several of its largest competitors introduced significant discounts.

Margins also fell at the lace division after the German and Dutch businesses were hit by a large drop in sales. "In terms of demand, it has been a very poor year on the continent which has got continually worse," said Mr Parker.

Mr Parker predicted that conditions in continental Europe would continue to be tough over the summer, but would pick up in the final quarter of the year. However the UK lace and garment businesses were performing ahead of last year, he said.

The provision follows a previous rationalisation of the lace operations on the continent two years ago, when the workforce was reduced by 18 per cent and a factory in Germany was closed.

The German business, which at one stage employed about 140 people, will face further redundancies and will be left with about 10 staff.

## INTERNATIONAL CAPITAL MARKETS

# Italian futures jump on Moody's upgrading

By Samer Iskandar in London and Lisa Bransten in New York

Most European bond markets traded quietly in a tight range while the US Fed's FOMC meeting was taking place. However prices of Italian BTP futures surged in late afternoon when Moody's, the US credit rating agency, announced an upgrade of Italy's domestic and foreign currency sovereign rating to Aa3, from A1.

### GOVERNMENT BONDS

September BTP futures jumped to a high of 117.40 on APT, Liffe's after-hours screen-based trading system, after having settled at 116.83, up 0.01.

In the cash market, the 9½ per cent BTP due 2006 was 0.04 higher at 101.86 at the official close, its yield spread over bunds 1 basis point tighter at 287. Final inflation data for June is due to be released tomorrow, and market participants expect a rate cut by the Bank of Italy to follow.

■ German bunds were supported by encouraging economic data and bullish comments by Mr Ernst Welteke, a member of the Bundesbank's council. Liffe's September bund future settled at 95.50, down 0.03, but off the day's low.

Industrial production rose by 1 per cent month-on-month in May, which made economists at HSBC Markets confident that "the real economy is on the mend".

Analysts at UBS in Frankfurt concurred, adding that against a background of subdued inflation they expect "the Bundesbank will help keep the momentum going with further modest reductions in the repurchase rate".

This view was echoed by Mr Welteke, who predicted a decline in M3 money supply and said there was still room to "further lower the repo rate".

■ Trading in UK gilts was subdued. The market was kept in check by the Fed's FOMC meeting as well as by the policy meeting between the chancellor of the exchequer and the governor of the Bank of England.

Liffe's September long gilt future traded in a narrow range of $106\frac{5}{16}$-$106\frac{9}{16}$ before settling at $106\frac{11}{32}$, down $\frac{3}{16}$. The volume of transactions, approximately 28,000 contracts, was less than half the 60,000 average of a "normal" session. In the cash market, the 10-year benchmark gilt closed at $96\frac{15}{16}$, down $\frac{5}{32}$.

After last week's rally, traders have adopted a "safety first attitude", said Mr Andrew Roberts, a bond analyst at UBS. "Gilts have appreciated both in absolute terms and relative to bunds, so there is little incentive to adopt aggressive strategies".

Mr Roberts predicts the 10-year spread over bunds will soon reach 150 basis points, against 155 yesterday.

■ Spanish bonds closed lower, but the positive market sentiment seemed intact. The September notional futures contract on 10-year bonds settled at 100.44, down 0.33. In the cash market, the benchmark 8.8 per cent bond 2006 was 0.43 lower at 99.46, its yield spread over bunds 5 basis points wider at 232.

An auction of 5- and 15-year bonds was well bid, with yields falling by 28 and 35 basis points respectively from the levels of the previous auction.

■ French OATs traded in line with bunds. Matif's September notional future closed at 121.76, down 0.06. In the cash market, the 10-year OAT yield was 4 basis points below that of the equivalent bund, compared with 3 basis points on Tuesday.

■ US Treasury bonds traded in a narrow range yesterday as traders focused on monetary policy and awaited the conclusion of the Federal Reserve's Open Market Committee.

In mid-morning trading the benchmark-30-year Treasury was $\frac{1}{8}$ lower at $88\frac{1}{32}$ to yield 6.953 per cent, while at the short end of the maturity spectrum, the two-year note was off $\frac{1}{32}$ at $100\frac{1}{32}$, yielding 6.216 per cent. The September 30-year bond slipped $\frac{1}{4}$ to $108\frac{29}{32}$.

Most economists believed that the Fed would leave interest rates unchanged, but earlier this week some stronger-than-expected data on business activity in June and new home sales in May threw some uncertainty into the discussion. The Fed was due to put out a statement about whether it would change short-term interest rates at 2:15pm (New York time).

Longer-term interest rates have barely budged since bonds rallied late last week after weak data led to speculation that the Fed would leave monetary policy unchanged. Yesterday, the market showed little reaction to figures on manufacturers for May that were slightly stronger than expected.

"It's been boring for the last couple of days," said Mr Richard Gilhooly, an international bond strategist at Paribas Capital Markets in New York. He said he expected bonds to rally if the Fed leaves rates unchanged because the market would take that as an indication that recent strength in the economic data was tolerable to the Fed.

The market will be closed today for Independence Day and will be open for a half-day tomorrow.

# Roadshow gets under way for asset-backed launch

By Conner Middelmann

The underwriters of the forthcoming FFr40bn issue of asset-backed floating-rate bonds for Cyber-Val 07-96 – the largest-ever international bond offering – yesterday were busy preparing its launch next week. An investor presentation in Paris today will kick off a European roadshow covering Dublin, Brussels, Zurich, Geneva, London and Frankfurt.

The deal highlights the growing receptiveness of European investors to buy asset-backed securities, which has spurred the launch of several securitised deals denominated in European currencies in recent months.

The Cyber-Val issue will be backed by one third of the loan made by Crédit Lyonnais to EPFR, a vehicle set up and guaranteed by the French state as part of the bank's restructuring package approved last year.

The transaction, which will be lead-managed by Crédit Lyonnais, Merrill Lynch and Morgan Stanley, is set to be launched around the middle of next week. It will consist of four tranches: a FFr4bn one-year portion expected to be priced between 1 basis point below and 1 basis point above three-month Pibor; a FFr8bn two-year tranche at between 1 and 3 basis points over Pibor; a FFr8bn three-year tranche yielding between 4 and 6 basis points over Pibor and a FFr16bn five-year tranche which pays back FFr8bn at the end of the fourth year, set to yield between 7 and 9 basis points over Pibor. The issue is expected to obtain a triple-A credit rating.

### INTERNATIONAL BONDS

While the short tranches will be aimed at French institutions, the longer-dated bonds will be aimed at investors – banks, funds and corporates – across Europe. The bonds will be zero-risk weighted in France, and some dealers were speculating other countries might follow suit since bonds recently issued by Cades, the French agency set up to manage the country's social security debts, have been accorded a zero-risk weighting in the UK and Germany.

Elsewhere, the meeting of the Federal Open Market Committee and today's US Independence Day holiday caused issuance to slow to a trickle. With institutional investors lying low, retail-targeted, high-yielding bonds were one of the main themes of the day.

In the South African rand sector, the World Bank issued R200m of 13 per cent, three-year bonds via Hambros Bank and Deutsche Bank Finance launched R200m of 14 per cent, five-year bonds led by Deutsche Morgan Grenfell. The paper was aimed mainly at yield-hungry retail investors in Germany and Switzerland.

The South African market has begun to shake off the currency crisis that sent bond yields soaring earlier this year: the rand is now back in a range of R4.30 to R4.35 against the dollar and South Africa's 10-year benchmark government bond now yields 14.89 per cent, down from 15.5 per cent about two months ago.

The European Investment Bank meanwhile made its debut in the Czech koruna market with Kč1.5bn of 10¾ per cent, three-year bonds via Wood Commerz, a Prague-based joint venture between Germany's Commerzbank and a local brokerage – the first koruna bond underwritten by a domestic institution.

# Report of Yeltsin victory boosts Russian debt

By Richard Lapper

Russian debt prices surged yesterday evening on early reports indicating a victory for President Boris Yeltsin in the second round of presidential elections held yesterday. Early yesterday evening in London Vnesheconombank dollar-denominated loans were quoted at 50⅝ per cent of face value, up more than 4 per cent on the day.

West Merchant Bank's price index showed Russian debt at 335.6, compared with 323.3 on Tuesday and 320.8 on Monday.

The strength of the Russian market also lifted other east European Brady paper, with the price of the most widely traded Bulgarian bonds – the IABs – jumping by 2 per cent to 49¾.

Earlier it had appeared that the rally which began after the first round of the elections last month and lifted debt prices by some 20 per cent, had petered out, mainly as a result of worries over Mr Yeltsin's health, according to analysts.

### EMERGING MARKETS

Mr Peter West, economic adviser to West Merchant Bank in London, suggested there is some further upside potential, on the assumption that Russia's commercial debt rescheduling deal is completed.

The prices of the two new instruments created by that deal – "principal notes" and "interest arrears notes" or "ians" – imply a price in the high 50s for Vnesh dollar debt, said Mr West.

Investors in the new instruments, trading since Monday on a "when and if issued basis", are being compensated for so-called "deal risk", the possibility that the rescheduling affecting some $33bn of dollar debt (including interest arrears) will not be completed in December as expected. This week liquidity in the "Vnesh" loans is gradually being transferred into "principals" and "ians" and trading in Vnesh loans is continuing on a so-called sub-participation basis until later this month.

Dealing in the new instruments began on Monday, with investors initially favouring "ians" on the grounds that they are clearable through Euroclear, with the yield spread between the two instruments as high as 500 basis points on Monday. Subsequently, however, the spread has fallen to some 240 per cent mainly because dealers have spotted arbitrage opportunities.

Initially trading at 55 per cent of face value "ians" were quoted yesterday afternoon in London at 53 per cent, while "principals" had risen from 33 per cent to 36⅝ per cent of face value.

Elsewhere, Ecuadorean prices have recovered amid indications that the right-wing candidate, Mr Jaime Nebot, is gaining ground in the opinion polls ahead of the second round of presidential elections scheduled to take place on Sunday.

Fears of a victory for the populist candidate, Mr Abdala Bucaram, had earlier cast a shadow over the market but since June 28 prices have gained more than 1 per cent according to the WMB index. Ms Ingrid Iversen, senior economist with UBS in New York, said a Nebot victory now looked more likely but remains unenthusiastic about the paper, pointing to high levels of volatility in recent trading.

## New international bond issues

| Borrower | Amount m. | Coupon % | Price | Maturity | Fees % | Spread bp | Book-runner |
|---|---|---|---|---|---|---|---|
| **US DOLLARS** | | | | | | | |
| Stoodbank§ | 150 | (a) | 99.70R | Jul 2006 | 0.40R | - | SBC Warburg |
| Banco AGF Brasil | 60 | 10.00 | 99.91R | Jul 1999 | 0.85R | +385(6¾%-99) | Société Générale |
| **YEN** | | | | | | | |
| Fujisawa Holland‡ | 3bn | 0.50 | 99.57 | Jul 2001 | 0.25 | - | Tokai Bank Europe |
| World Bank | 30bn | 5.00 | 100.00 | Jul 1998 | 1.50 | - | Merrill/Sanwa/Sumitomo |
| **SOUTH AFRICAN RANDS** | | | | | | | |
| Deutsche Bank Fin Curacao | 200 | 14.00 | 101.44 | Aug 2001 | 1.50 | - | Deutsche Morgan Grenfell |
| World Bank | 200 | 13.00 | 101.35 | Aug 1999 | 1.50 | - | Hambros Bank |
| **CZECH KORUNA** | | | | | | | |
| EIB | 1.5bn | 10.75 | 101.203 | Jul 1999 | 1.375 | - | Wood Commerz |
| **LUXEMBOURG FRANCS** | | | | | | | |
| Kredietbank Luxembourg | 2bn | (c) | 102.35 | Aug 2003 | 1.875 | - | Kredietbank Luxembourg |
| **ITALIAN LIRE** | | | | | | | |
| Cariplo(q) | 250bn | zero | 40.84 | Jul 2006 | 1.00 | - | Cariplo |

Final terms, non-callable unless stated. Yield spread (over relevant government bond) at launch supplied by lead manager. ‡Unlisted. §Convertible. ‡With equity warrants. † Floating-rate note. #Semi-annual coupon. R: fixed re-offer price; fees shown at re-offer level. a) 6-mth Libor +30bp. Callable at par from 7/01, after which margin rises to 200bp. b) 6% for 1st 5 yrs; 8% thereafter. c) Added to outstanding Nov 08 issue. q) Short 1st coupon.

## WORLD BOND PRICES

### BENCHMARK GOVERNMENT BONDS

| | | Coupon | Red Date | Price | Day's change | Yield | Week ago | Month ago |
|---|---|---|---|---|---|---|---|---|
| Australia | | 10.000 | 02/06 | 107.7460 | +0.819 | 8.82 | 8.93 | 8.82 |
| Austria | | 6.250 | 05/06 | 97.0600 | -0.170 | 6.56 | 6.56 | 6.47 |
| Belgium | | 7.000 | 05/06 | 101.6300 | -0.050 | 6.78 | 6.80 | 6.65 |
| Canada * | | 7.000 | 12/06 | 94.7200 | -0.180 | 7.75 | 7.77 | 7.50 |
| Denmark | | 8.000 | 03/06 | 104.0000 | -0.060 | 7.40 | 7.44 | 7.28 |
| France | BTAN | 5.750 | 03/01 | 100.3900 | -0.120 | 5.65 | 5.65 | 5.46 |
| | OAT | 7.250 | 04/06 | 105.1700 | -0.050 | 6.51 | 6.57 | 6.43 |
| Germany Bund | | 6.250 | 04/06 | 97.8600 | -0.050 | 6.55 | 6.58 | 6.40 |
| Ireland | | 8.000 | 08/06 | 102.5000 | -0.060 | 7.63 | 7.69 | 7.58 |
| Italy | | 9.500 | 02/06 | 101.8600 | +0.040 | 9.20† | 9.24 | 9.40 |
| Japan | No 140 | 6.600 | 06/01 | 118.1457 | -0.040 | 2.29 | 2.24 | 2.29 |
| | No 182 | 3.000 | 09/05 | 98.2996 | +0.035 | 3.24 | 3.27 | 3.24 |
| Netherlands | | 6.000 | 01/06 | 96.6000 | -0.160 | 6.48 | 6.48 | 6.31 |
| Portugal | | 11.875 | 02/05 | 118.5500 | -0.100 | 8.71 | 8.79 | 8.92 |
| Spain | | 8.800 | 04/06 | 99.4600 | -0.430 | 8.86 | 8.85 | 9.09 |
| Sweden | | 6.000 | 02/05 | 86.3360 | -0.003 | 8.24 | 8.19 | 8.85 |
| UK Gilts | | 8.000 | 12/00 | 103-00 | -1/32 | 7.19 | 7.24 | 7.40 |
| | | 7.500 | 12/06 | 96-30 | -5/32 | 7.93 | 7.95 | 8.05 |
| | | 9.000 | 10/08 | 107-11 | -6/32 | 8.04 | 8.10 | 8.14 |
| US Treasury * | | 6.875 | 05/06 | 100-14 | -4/32 | 6.81 | 6.89 | 6.68 |
| | | 6.000 | 02/26 | 88-01 | -10/32 | 6.96 | 7.03 | 6.84 |
| ECU (French Govt) | | 7.500 | 04/05 | 103.5200 | -0.140 | 6.95 | 6.95 | 6.87 |

London closing, *New York mid-day. Yields: Local market standard.
† Gross (including withholding tax at 12.5 per cent payable by nonresidents)
Prices: US, UK in 32nds, others in decimal. Source: MMS International

### US INTEREST RATES

| Latest | | Treasury Bills and Bond Yields | | | |
|---|---|---|---|---|---|
| Prime rate | 8¼ | One month | - | Two year | 6.22 |
| Broker loan rate | 7 | Two month | - | Three year | 6.38 |
| Fed.funds | 5⅜ | Three month | 5.31 | Five year | 6.55 |
| Fed.funds at intervention | - | Six month | 5.48 | 10-year | 6.79 |
| | | One year | 5.77 | 30-year | 6.94 |

### BOND FUTURES AND OPTIONS

#### France

■ NOTIONAL FRENCH BOND FUTURES (MATIF) FFr500,000

| | Open | Sett price | Change | High | Low | Est. vol. | Open int. |
|---|---|---|---|---|---|---|---|
| Sep | 121.70 | 121.76 | -0.06 | 121.80 | 121.66 | 83,610 | 168,928 |
| Dec | 120.38 | 120.42 | -0.06 | 120.40 | 120.34 | 496 | 27,714 |
| Mar | 120.22 | 120.26 | -0.06 | 120.26 | 120.22 | 30 | 1,486 |

■ LONG TERM FRENCH BOND OPTIONS (MATIF)

| Strike Price | Calls Aug | Calls Sep | Calls Dec | Puts Aug | Puts Sep | Puts Dec |
|---|---|---|---|---|---|---|
| 120 | - | - | 1.61 | 0.10 | 0.34 | - |
| 121 | 1.04 | - | - | 0.29 | 0.57 | - |
| 122 | 0.44 | 0.07 | - | 0.66 | - | - |
| 123 | 0.12 | 0.03 | 0.42 | - | - | - |
| 124 | - | 0.11 | - | - | - | - |

Est. vol. total, Calls 17,254 Puts 18,382 . Previous day's open int., Calls 114,167 Puts 125,336.

#### Germany

■ NOTIONAL GERMAN BUND FUTURES (LIFFE)* DM250,000 100ths of 100%

| | Open | Sett price | Change | High | Low | Est. vol | Open int. |
|---|---|---|---|---|---|---|---|
| Sep | 95.39 | 95.50 | -0.03 | 95.64 | 95.31 | 99955 | 201374 |
| Dec | 94.84 | 94.80 | -0.04 | 94.88 | 94.64 | 98 | 3845 |

■ BUND FUTURES OPTIONS (LIFFE) DM250,000 points of 100%

| Strike Price | Calls Aug | Calls Sep | Calls Oct | Calls Dec | Puts Aug | Puts Sep | Puts Oct | Puts Dec |
|---|---|---|---|---|---|---|---|---|
| 9550 | 0.45 | 0.73 | 0.51 | 0.81 | 0.45 | 0.73 | 1.41 | 1.71 |
| 9600 | 0.23 | 0.49 | 0.35 | 0.62 | 0.73 | 0.99 | 1.75 | 2.02 |
| 9650 | 0.10 | 0.30 | 0.24 | 0.47 | 1.10 | 1.30 | 2.14 | 2.37 |

Est. vol. total, Calls 7156 Puts 16656. Previous day's open int., Calls 136958 Puts 157833

#### Italy

■ NOTIONAL ITALIAN GOVT. BOND (BTP) FUTURES (LIFFE)* Lira 200m 100ths of 100%

| | Open | Sett price | Change | High | Low | Est. vol | Open int. |
|---|---|---|---|---|---|---|---|
| Sep | 116.70 | 116.83 | +0.01 | 117.40 | 116.57 | 27936 | 60880 |
| Dec | 115.26 | 115.11 | +0.04 | 116.25 | 115.10 | 192 | 485 |

■ ITALIAN GOVT. BOND (BTP) FUTURES OPTIONS (LIFFE) Lira200m 100ths of 100%

| Strike Price | Calls Sep | Calls Dec | Puts Sep | Puts Dec |
|---|---|---|---|---|
| 11650 | 1.57 | 1.85 | 1.04 | 2.24 |
| 11700 | 1.11 | 1.60 | 1.28 | 2.49 |
| 11750 | 0.89 | 1.40 | 1.56 | 2.79 |

Est. vol. total, Calls 3790 Puts 1256. Previous day's open int., Calls 71679 Puts 64800

#### Spain

■ NOTIONAL SPANISH BOND FUTURES (MEFF)

| | Open | Sett price | Change | High | Low | Est. vol. | Open int. |
|---|---|---|---|---|---|---|---|
| Sep | 100.56 | 100.44 | -0.33 | 100.70 | 100.37 | 60,096 | 58,453 |

#### UK

■ NOTIONAL UK GILT FUTURES (LIFFE)* £50,000 32nds of 100%

| | Open | Sett price | Change | High | Low | Est. vol | Open int. |
|---|---|---|---|---|---|---|---|
| Sep | 106-14 | 106-11 | -0-06 | 106-18 | 106-10 | 27898 | 122886 |
| Dec | 105-17 | 105-15 | -0-04 | 105-18 | 105-17 | 516 | 6 |

■ LONG GILT FUTURES OPTIONS (LIFFE) £50,000 64ths of 100%

| Strike Price | Calls Aug | Calls Sep | Calls Oct | Calls Dec | Puts Aug | Puts Sep | Puts Oct | Puts Dec |
|---|---|---|---|---|---|---|---|---|
| 106 | 0-55 | 1-15 | 1-06 | 1-36 | 0-33 | 0-57 | 1-40 | 2-06 |
| 107 | 0-26 | 0-48 | 0-46 | 1-10 | 1-04 | 1-26 | 2-16 | 2-44 |
| 108 | 0-11 | 0-27 | 0-28 | 0-63 | 1-53 | 2-05 | 2-62 | 3-23 |

Est. vol. total, Calls 475 Puts 2490. Previous day's open int., Calls 21369 Puts 18810

#### Ecu

■ ECU BOND FUTURES (MATIF) ECU100,000

| | Open | Sett price | Change | High | Low | Est. vol | Open int. |
|---|---|---|---|---|---|---|---|
| Sep | 90.76 | 90.82 | -0.10 | 90.84 | 90.74 | 1,117 | 6,251 |

#### US

■ US TREASURY BOND FUTURES (CBT) $100,000 32nds of 100%

| | Open | Sett price | Change | High | Low | Est. vol. | Open int. |
|---|---|---|---|---|---|---|---|
| Sep | 109-01 | 109-03 | +0-01 | 109-05 | 108-28 | 244,592 | 439,930 |
| Dec | 108-17 | 108-18 | +0-01 | 108-21 | 108-13 | 927 | 18,433 |
| Mar | - | 108-06 | - | - | - | 41 | 2,970 |

#### Japan

■ NOTIONAL LONG TERM JAPANESE GOVT. BOND FUTURES (LIFFE) Y100m 100ths of 100%

| | Open | Close | Change | High | Low | Est. vol | Open int. |
|---|---|---|---|---|---|---|---|
| Sep | 118.88 | - | - | 118.98 | 118.76 | 2201 | n/a |
| Dec | 117.83 | - | - | 117.85 | 117.77 | 421 | n/a |

* LIFFE futures also traded on APT. All Open interest figs. are for previous day.

### FT-ACTUARIES FIXED INTEREST INDICES

| Price indices UK Gilts | Wed Jul 3 | Day's change % | Tue Jul 2 | Accrued interest | xd adj. ytd | | Low coupon yield Jul 3 | Jul 2 | Yr. ago | Medium coupon yield Jul 3 | Jul 2 | Yr. ago | High coupon yield Jul 3 | Jul 2 | Yr. ago |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1 Up to 5 years (22) | 122.65 | -0.01 | 122.66 | 3.04 | 4.26 | 5 yrs | 7.31 | 7.29 | 8.36 | 7.57 | 7.54 | 8.54 | 7.44 | 7.43 | 8.71 |
| 2 5-15 years (19) | 148.54 | -0.13 | 148.73 | 2.48 | 5.64 | 15 yrs | 8.14 | 8.12 | 8.54 | 8.15 | 8.13 | 8.69 | 8.23 | 8.22 | 8.96 |
| 3 Over 15 years (9) | 160.49 | -0.19 | 161.86 | 2.55 | 6.30 | 20 yrs | 8.23 | 8.22 | 8.60 | 8.23 | 8.21 | 8.66 | 8.26 | 8.25 | 8.76 |
| 4 Irredeemables (6) | 183.27 | 0.18 | 182.94 | 2.31 | 6.36 | Irred.† | 8.27 | 8.26 | 8.62 | | | | | | |
| 5 All stocks (56) | 142.05 | -0.10 | 142.34 | 2.77 | 5.28 | | | | | | | | | | |

| Index-linked | | | | | | | Inflation 5% Jul 3 | Jul 2 | Yr. ago | Inflation 10% Jul 3 | Jul 2 | Yr. ago |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 6 Up to 5 years (1) | 198.54 | 0.03 | 198.48 | 1.66 | 4.43 | Up to 5 yrs | 2.55 | 2.56 | 3.85 | 1.08 | 1.08 | 2.84 |
| 7 Over 5 years (11) | 187.70 | 0.04 | 187.63 | 1.80 | 1.81 | Over 5 yrs | 3.60 | 3.60 | 3.95 | 3.59 | 3.59 | 3.77 |
| 8 All stocks (12) | 187.82 | 0.04 | 187.75 | 1.79 | 1.86 | | | | | | | |

Average gross redemption yields are shown above. Coupon Bands: Low: 0%-7¾%; Medium: 8%-10¾%; High: 11% and over. † Flat yield. ytd Year to date.

### FT FIXED INTEREST INDICES

| | Jul 3 | Jul 2 | Jul 1 | Jun 28 | Jun 27 | Yr ago | High* | Low* |
|---|---|---|---|---|---|---|---|---|
| Govt. Secs. (UK) | 92.60 | 92.91 | 92.81 | 92.55 | 92.58 | 91.99 | 96.34 | 91.58 |
| Fixed Interest | 112.40 | 112.63 | 112.12 | 112.10 | 112.00 | 110.63 | 115.23 | 110.74 |

* for 1996. Government Securities high since compilation: 127.4 (09/01/35), low 49.18 (03/01/75). Fixed Interest high since compilation: 133.87 (21/01/94), low 50.53 (03/01/75). Basis 100: Government Securities 15/10/26 and Fixed Interest 1928. SE activity indices rebased 1974.

### GILT EDGED ACTIVITY INDICES

| | Jul 2 | Jul 1 | Jun 28 | Jun 27 | Jun 26 |
|---|---|---|---|---|---|
| Gilt Edged bargains | 84.9 | 77.4 | 79.1 | 78.3 | 90.9 |
| 5-day average | 82.1 | 82.7 | 80.5 | 78.6 | 78.1 |

## FT/ISMA INTERNATIONAL BOND SERVICE

Listed are the latest international bonds for which there is an adequate secondary market. Latest prices at 7:10 pm on July 3

| | Issued | Bid | Offer | Chg. | Yield |
|---|---|---|---|---|---|
| **U.S. DOLLAR STRAIGHTS** | | | | | |
| [illegible] | | | | | |
| **FLOATING RATE NOTES** | | | | | |
| [illegible] | | | | | |
| **CONVERTIBLE BONDS** | | | | | |
| [illegible] | | | | | |

STRAIGHT BONDS: The yield is the yield to redemption of the bid-price; the amount issued is in millions of currency units. Chg. day=Change on day. FLOATING RATE NOTES: Denominated in dollars unless otherwise indicated. Coupon shown is minimum. [illegible] CONVERTIBLE BONDS: Denominated in dollars unless otherwise indicated. [illegible]



## UK GILTS PRICES

| | Notes | Yield Int | Yield Red | Price £ | + or - | 52 week High | 52 week Low |
|---|---|---|---|---|---|---|---|
| **Shorts" (Lives up to Five Years)** | | | | | | | |
| Treas 2pc 1996 | | 0.91 | 5.48 | 219⅝ | +⅛ | 219¾ | 210½ |
| [illegible] | | | | | | | |
| Treas 8½pc 2005‡‡ | | 8.17 | 7.88 | 104⅛ | -⅛ | 106⅛ | 101 |
| Treas 7½pc 2006‡‡ | | 7.74 | 7.83 | 96⅞ | | | |
| [illegible] | | | | | | | |
| **Index-Linked** | (b) | | | | | | |
| 4⅝pc '98‡‡ | (135.6) | 1.07 | 2.58 | 113⅜ | +⅛ | 113⅜ | 111⅛ |
| [illegible] | | | | | | | |
| **Other Fixed Interest** | | | | | | | |
| [illegible] | | | | | | | |

* "Tap" stock. ‡‡ Tax-free to non-residents on application. E Auction basis. xd Ex dividend. Closing mid-prices are shown in pounds per £100 nominal of stock. Prospective real redemption rates on projected inflation of (1) 10% and (2) 5%. [illegible]

# CURRENCIES AND MONEY

MARKETS REPORT

## Yeltsin health factor starts to concern markets

By Philip Gawith

Foreign exchanges were fairly quiet yesterday as markets waited for the US Federal Reserve to announce the outcome of its two-day policy meeting.

A measure of concern, however, did enter the markets about the health of President Yeltsin. Although exit polls suggested he would triumph in the presidential election, the uncertain state of his health has focused markets on who, or what, might follow him.

The dollar finished little changed in London at DM1.5252 from DM1.5270. Against the yen it closed at Y110.570 from Y110.140.

The Yeltsin worries contributed to D-Mark weakness in the morning, which saw the French franc dip below FFr3.3799 and the Swiss franc rally to 81.87 centimes before finishing at 82.3 centimes.

The early poll results suggesting President Yeltsin would triumph over his Communist challenger helped arrest the slide in the D-Mark, contributing to a weaker dollar in the US afternoon. The dollar was trading at DM1.5222 and Y110.35 in mid-afternoon New York trading before the Fed's meeting finished.

Sterling was little changed, closing at DM2.3777 and $1.5590 from DM2.3762 and $1.5562.

A late development was the news that the debt rating agency Moody's had upgraded Italy's rating. This saw the lira rally from a London close of L1,006 to L1,003 two hours later.

Analysts said the enhanced appeal of Italian assets could well be sufficient to push the lira back through L1,000 against the D-Mark.

■ Pound in New York

| Jul 3 | Latest | Prev. close |
|---|---|---|
| £ spot | 1.5590 | 1.5585 |
| 1 mth | 1.5587 | 1.5582 |
| 3 mth | 1.5585 | 1.5580 |
| 1 yr | 1.5602 | 1.5598 |

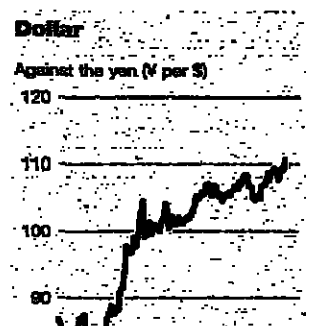
■ So far as the dollar was concerned, the FOMC meeting and Russia were the two events which dominated market thinking. Mr Jeremy Hawkins, chief economist at the Bank of America in London, said the market had become increasingly nervous about the prospect of US rates rising, especially after some strong data this week.

He said the odds had probably shifted from 80:20 against to only 55:45 against, especially in the light of the strong purchasing managers survey, and new homes sales well above market expectations.

Those who though the Fed might tighten used these data to support their case. Those who thought they would hold off invoked the authority of unnamed Fed officials who, a few weeks ago, said the Fed would not tighten policy until there were definite signs of inflation picking up.

Mr Hawkins said the health of President Yeltsin had now become an issue in the market. "Even if he does win, how long is he going to be there and who will succeed him?" He said this issue looked likely to act as a medium-term "D-Mark negative".

A side note to these issues was the performance of the Swiss franc. Although it was the beneficiary of the early D-Mark weakness, there were also reports out of New York of a large purchase of D-Marks against the franc.




One analyst said this probably reflected the growing perception that the Swiss economy was the weakest in Europe – arguably one headed for a currency devaluation in the same way that the yen and D-Mark have lost ground over the past year.

The yen itself slipped back on news that Mr Eisuke Sakakibara, the influential Ministry of Finance official associated with a "strong dollar" policy, will be staying in his job.

■ The recent rally in sterling has forced analysts to re-do their sums. Yesterday Goldman Sachs announced that it had revised its forecast higher against the D-Mark on the basis that the Labour party "pro-EMU" argument is likely to enjoy increasing weight in the market. Goldman is now forecasting DM2.45 instead of DM2.35 in six months time.

Mr David DeRosa, a director of foreign exchange at Swiss Bank in New York, offers two possible reasons for sterling strength:

• "the speculative money wants to be short the yen and long somewhere else that has more kick on the upside than the dollar."

• "a side bet on oil with the pound". Mr DeRosa believes that the Likud victory in the Israeli elections has boosted Arab solidarity and hence the Arab bloc within Opec.

This could favour a stronger oil price, which would help sterling as the UK is an oil producer. (In fact the benchmark price of oil is about 30 cents/barrel higher over the past month).

■ OTHER CURRENCIES

| Jul 3 | £ | $ |
|---|---|---|
| Czech Rp | 42.8681 - 42.9268 | 27.5060 - 27.5280 |
| Hungary | 233.931 - 234.159 | 150.100 - 150.150 |
| Iran | 4678.50 - 4675.50 | 3000.00 - 3000.00 |
| Kuwait | 0.4671 - 0.4677 | 0.2997 - 0.2999 |
| Poland | 4.2489 - 4.2595 | 2.7283 - 2.7313 |
| Russia | 8013.81 - 8025.19 | 5142.60 - 5146.00 |
| U.A.E. | 5.7241 - 5.7282 | 3.6728 - 3.6731 |

### POUND SPOT FORWARD AGAINST THE POUND

| Jul 3 | | Closing mid-point | Change on day | Bid/offer spread | Day's Mid high | Day's Mid low | One month Rate | One month %PA | Three months Rate | Three months %PA | One year Rate | One year %PA | Bank of Eng. Index |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Europe** | | | | | | | | | | | | | |
| Austria | (Sch) | 16.7338 | +0.0113 | 236 - 440 | 16.7683 | 16.7228 | 16.7025 | 2.2 | 16.6275 | 2.5 | - | - | 104.8 |
| Belgium | (BFr) | 48.9838 | +0.0724 | 369 - 307 | 49.0310 | 48.9210 | 48.8888 | 2.3 | 48.6988 | 2.3 | 47.9088 | 2.2 | 106.4 |
| Denmark | (DKr) | 9.1615 | +0.0074 | 562 - 667 | 9.1761 | 9.1561 | 9.1478 | 1.8 | 9.1274 | 1.5 | 9.0196 | 1.5 | 107.3 |
| Finland | (FM) | 7.2931 | +0.0146 | 849 - 013 | 7.3020 | 7.2840 | 7.2887 | 0.7 | 7.2806 | 0.7 | - | - | 83.2 |
| France | (FFr) | 8.0380 | +0.0048 | 344 - 416 | 8.0585 | 8.0306 | 8.0258 | 1.8 | 8.003 | 1.7 | 7.9097 | 1.6 | 109.1 |
| Germany | (DM) | 2.3777 | +0.0015 | 764 - 790 | 2.3832 | 2.3756 | 2.3733 | 2.2 | 2.3642 | 2.3 | 2.3255 | 2.2 | 108.2 |
| Greece | (Dr) | 373.271 | -0.221 | 058 - 485 | 375.828 | 371.368 | - | - | - | - | - | - | 67.8 |
| Ireland | (I£) | 0.9759 | +0.0017 | 750 - 767 | 0.9768 | 0.9743 | 0.9754 | 0.6 | 0.9742 | 0.7 | 0.9697 | 0.6 | 99.8 |
| Italy | (L) | 2392.63 | +0.72 | 105 - 461 | 2397.53 | 2388.94 | 2396.38 | -2.8 | 2408.23 | -2.6 | 2440.73 | -2.0 | 76.8 |
| Luxembourg | (LFr) | 48.9838 | +0.0724 | 369 - 307 | 49.0320 | 48.9210 | 48.8898 | 2.3 | 48.6988 | 2.3 | 47.9138 | 2.2 | 106.4 |
| Netherlands | (Fl) | 2.6684 | +0.0008 | 650 - 678 | 2.6747 | 2.6644 | 2.6603 | 2.7 | 2.6483 | 2.7 | 2.6006 | 2.5 | 106.5 |
| Norway | (NKr) | 10.1398 | +0.0037 | 307 - 489 | 10.1571 | 10.0991 | 10.1313 | 1.0 | 10.1143 | 1.0 | 10.0308 | 1.1 | 98.7 |
| Portugal | (Es) | 244.412 | +0.174 | 264 - 561 | 244.841 | 244.224 | 244.837 | -2.1 | 245.742 | -2.2 | - | - | 94.6 |
| Spain | (Pta) | 199.981 | +0.288 | 893 - 068 | 200.333 | 199.762 | 200.241 | -1.6 | 200.756 | -1.6 | 202.158 | -1.1 | 80.4 |
| Sweden | (SKr) | 10.4054 | -0.0227 | 944 - 164 | 10.4554 | 10.3935 | 10.4057 | 0.0 | 10.4058 | 0.0 | 10.4038 | 0.0 | 89.9 |
| Switzerland | (SFr) | 1.9566 | +0.0079 | 551 - 580 | 1.9585 | 1.9481 | 1.9516 | 3.1 | 1.9407 | 3.2 | 1.8926 | 3.3 | 110.7 |
| UK | (£) | - | - | - | - | - | - | - | - | - | - | - | 86.8 |
| Ecu | - | 1.2537 | -0.0001 | 529 - 544 | 1.2559 | 1.2525 | 1.2524 | 1.2 | 1.2494 | 1.4 | 1.2361 | 1.4 | - |
| SDR† | - | 1.078500 | - | - | - | - | - | - | - | - | - | - | - |
| **Americas** | | | | | | | | | | | | | |
| Argentina | (Peso) | 1.5589 | +0.0029 | 582 - 575 | 1.5595 | 1.5582 | - | - | - | - | - | - | - |
| Brazil | (R$) | 1.5671 | +0.0029 | 663 - 678 | 1.5680 | 1.5642 | - | - | - | - | - | - | - |
| Canada | (C$) | 2.1214 | -0.0007 | 203 - 225 | 2.1226 | 2.1171 | 2.1207 | 0.4 | 2.117 | 0.8 | 2.109 | 0.6 | 84.8 |
| Mexico | (New Peso) | 11.8632 | +0.0574 | 555 - 709 | 11.8724 | 11.8178 | - | - | - | - | - | - | - |
| USA | ($) | 1.5590 | +0.0028 | 585 - 595 | 1.5600 | 1.5560 | 1.5586 | 0.3 | 1.5584 | 0.1 | 1.5595 | 0.0 | 97.4 |
| **Pacific/Middle East/Africa** | | | | | | | | | | | | | |
| Australia | (A$) | 1.9943 | +0.0062 | 930 - 955 | 1.9964 | 1.9817 | 1.9969 | -1.5 | 2.0019 | -1.5 | 2.0271 | -1.6 | 92.8 |
| Hong Kong | (HK$) | 12.0674 | +0.0216 | 633 - 715 | 12.0747 | 12.0448 | 12.0593 | 0.8 | 12.0477 | 0.7 | 12.0279 | 0.3 | - |
| India | (Rs) | 54.4872 | +0.0996 | 579 - 164 | 54.9940 | 54.1480 | - | - | - | - | - | - | - |
| Israel | (Shk) | 4.9802 | -0.0214 | 761 - 843 | 5.0158 | 4.9695 | - | - | - | - | - | - | - |
| Japan | (Y) | 172.379 | +0.985 | 277 - 481 | 172.485 | 171.580 | 171.654 | 5.0 | 170.164 | 5.1 | 163.749 | 5.0 | 132.2 |
| Malaysia | (M$) | 3.8860 | +0.0042 | 839 - 880 | 3.8910 | 3.8788 | - | - | - | - | - | - | - |
| New Zealand | (NZ$) | 2.2838 | +0.0118 | 818 - 857 | 2.2894 | 2.2796 | 2.2888 | -2.6 | 2.2982 | -2.5 | 2.3321 | -2.1 | 108.0 |
| Philippines | (Peso) | 40.8225 | +0.0747 | 548 - 901 | 40.8983 | 40.7440 | - | - | - | - | - | - | - |
| Saudi Arabia | (SR) | 5.8470 | +0.0106 | 448 - 492 | 5.8508 | 5.8368 | - | - | - | - | - | - | - |
| Singapore | (S$) | 2.2038 | +0.0062 | 028 - 047 | 2.2051 | 2.2002 | - | - | - | - | - | - | - |
| South Africa | (R) | 6.7481 | +0.0092 | 436 - 526 | 6.7589 | 6.7435 | - | - | - | - | - | - | - |
| South Korea | (Won) | 1256.24 | -8.44 | 553 - 696 | 1270.98 | 1254.46 | - | - | - | - | - | - | - |
| Taiwan | (T$) | 42.9536 | +0.2124 | 008 - 063 | 43.0421 | 42.7648 | - | - | - | - | - | - | - |
| Thailand | (Bt) | 39.6158 | +0.1051 | 953 - 363 | 39.6370 | 39.5340 | - | - | - | - | - | - | - |

† Rates for Jul 2. Bid/offer spreads in the Pound Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. Sterling index calculated by the Bank of England. Base average 1990 = 100. Index rebased 1/2/95. Bid, Offer and Mid-rates in both this and the Dollar Spot tables derived from THE WM/REUTERS CLOSING SPOT RATES. Some values are rounded by the F.T.

### DOLLAR SPOT FORWARD AGAINST THE DOLLAR

| Jul 3 | | Closing mid-point | Change on day | Bid/offer spread | Day's mid high | Day's mid low | One month Rate | One month %PA | Three months Rate | Three months %PA | One year Rate | One year %PA | J.P. Morgan index |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Europe** | | | | | | | | | | | | | |
| Austria | (Sch) | 10.7337 | -0.0124 | 306 - 368 | 10.7645 | 10.7240 | 10.7142 | 2.2 | 10.6722 | 2.3 | 10.4887 | 2.3 | 104.6 |
| Belgium | (BFr) | 31.4200 | -0.011 | 000 - 400 | 31.4710 | 31.3830 | 31.365 | 2.1 | 31.25 | 2.2 | 30.71 | 2.3 | 106.1 |
| Denmark | (DKr) | 5.8765 | -0.006 | 750 - 780 | 5.8924 | 5.8719 | 5.869 | 1.5 | 5.852 | 1.7 | 5.783 | 1.6 | 106.6 |
| Finland | (FM) | 4.6781 | +0.0008 | 743 - 818 | 4.6863 | 4.6627 | 4.6716 | 1.7 | 4.6596 | 1.6 | 4.6141 | 1.4 | 82.7 |
| France | (FFr) | 5.1559 | -0.0064 | 552 - 565 | 5.1702 | 5.1520 | 5.149 | 1.6 | 5.1347 | 1.6 | 5.0669 | 1.7 | 108.5 |
| Germany | (DM) | 1.5252 | -0.0018 | 248 - 255 | 1.5298 | 1.5237 | 1.5227 | 2.0 | 1.5169 | 2.2 | 1.4887 | 2.4 | 107.5 |
| Greece | (Dr) | 239.430 | -0.58 | 370 - 490 | 241.440 | 238.330 | 241.105 | -8.4 | 244.455 | -8.4 | 258.43 | -7.9 | 67.3 |
| Ireland | (I£) | 1.5976 | +0.0002 | 967 - 984 | 1.6005 | 1.5945 | 1.5981 | -0.4 | 1.599 | -0.4 | 1.5905 | 0.4 | - |
| Italy | (L) | 1534.65 | -2.35 | 420 - 550 | 1538.50 | 1532.33 | 1539.6 | -3.7 | 1547.75 | -3.4 | 1570.5 | -2.3 | 76.4 |
| Luxembourg | (LFr) | 31.4200 | -0.011 | 000 - 400 | 31.4710 | 31.3830 | 31.367 | 2.0 | 31.2605 | 2.0 | 30.78 | 2.0 | 106.1 |
| Netherlands | (Fl) | 1.7104 | -0.0026 | 100 - 107 | 1.7162 | 1.7093 | 1.707 | 2.4 | 1.6998 | 2.4 | 1.6682 | 2.5 | 106.0 |
| Norway | (NKr) | 6.5041 | -0.0085 | 003 - 078 | 6.5252 | 6.4850 | 6.5011 | 0.5 | 6.4956 | 0.5 | 6.4591 | 0.7 | 98.0 |
| Portugal | (Es) | 156.775 | -0.175 | 730 - 820 | 157.220 | 156.690 | 157.09 | -2.4 | 157.68 | -2.3 | 159.825 | -1.9 | 94.6 |
| Spain | (Pta) | 128.275 | -0.05 | 260 - 290 | 128.720 | 128.250 | 128.525 | -2.3 | 128.955 | -2.1 | 130.495 | -1.7 | 80.2 |
| Sweden | (SKr) | 6.6744 | -0.0268 | 695 - 793 | 6.7203 | 6.6685 | 6.6855 | -2.0 | 6.7029 | -1.7 | 6.7449 | -1.1 | 90.1 |
| Switzerland | (SFr) | 1.2550 | +0.0027 | 545 - 555 | 1.2584 | 1.2497 | 1.2514 | 3.4 | 1.244 | 3.5 | 1.2105 | 3.5 | 110.6 |
| UK | (£) | 1.5590 | +0.0028 | 585 - 595 | 1.5600 | 1.5560 | 1.5586 | 0.3 | 1.5584 | 0.1 | 1.5595 | 0.0 | 86.4 |
| Ecu | - | 1.2436 | +0.0024 | 432 - 439 | 1.2440 | 1.2400 | 1.2444 | -0.7 | 1.246 | -0.8 | 1.2549 | -0.9 | - |
| SDR† | - | 0.69340 | - | - | - | - | - | - | - | - | - | - | - |
| **Americas** | | | | | | | | | | | | | |
| Argentina | (Peso) | 0.9986 | - | 985 - 987 | 0.9987 | 0.9984 | - | - | - | - | - | - | - |
| Brazil | (R$) | 1.0052 | - | 050 - 053 | 1.0053 | 1.0050 | - | - | - | - | - | - | - |
| Canada | (C$) | 1.3608 | -0.0029 | 605 - 610 | 1.3612 | 1.3600 | 1.3606 | 0.1 | 1.3609 | 0.0 | 1.3637 | -0.2 | 84.0 |
| Mexico | (New Peso) | 7.6095 | +0.023 | 070 - 120 | 7.6140 | 7.6070 | 7.771 | -25.5 | 7.956 | -18.2 | 9.7195 | -27.7 | - |
| USA | ($) | - | - | - | - | - | - | - | - | - | - | - | 98.1 |
| **Pacific/Middle East/Africa** | | | | | | | | | | | | | |
| Australia | (A$) | 1.2791 | +0.0016 | 788 - 796 | 1.2797 | 1.2736 | 1.2811 | -1.9 | 1.2846 | -1.7 | 1.3033 | -1.9 | 94.2 |
| Hong Kong | (HK$) | 7.7405 | -0.0003 | 403 - 408 | 7.7407 | 7.7400 | 7.7412 | -0.1 | 7.743 | -0.1 | 7.77 | -0.4 | - |
| India | (Rs) | 34.9500 | - | 500 - 500 | 35.2800 | 34.7400 | 35.1 | -5.2 | 35.405 | -5.2 | 36.875 | -5.5 | - |
| Israel | (Shk) | 3.1945 | -0.0196 | 929 - 961 | 3.2200 | 3.1900 | - | - | - | - | - | - | - |
| Japan | (Y) | 110.570 | +0.43 | 540 - 600 | 110.670 | 110.170 | 110.125 | 4.8 | 109.225 | 4.9 | 105.485 | 4.6 | 133.2 |
| Malaysia | (M$) | 2.4926 | -0.0019 | 921 - 931 | 2.4955 | 2.4920 | 2.4935 | -0.4 | 2.4996 | -1.1 | 2.5231 | -1.2 | - |
| New Zealand | (NZ$) | 1.4648 | +0.0049 | 641 - 656 | 1.4676 | 1.4640 | 1.4679 | -2.5 | 1.4737 | -2.4 | 1.4983 | -2.3 | - |
| Philippines | (Peso) | 26.1850 | - | 500 - 200 | 26.2200 | 26.1500 | - | - | - | - | - | - | - |
| Saudi Arabia | (SR) | 3.7505 | - | 503 - 507 | 3.7508 | 3.7502 | 3.751 | -0.1 | 3.7517 | -0.1 | 3.755 | -0.1 | - |
| Singapore | (S$) | 1.4136 | +0.0014 | 134 - 137 | 1.4145 | 1.4122 | 1.4101 | 3.0 | 1.4041 | 2.7 | 1.3786 | 2.5 | - |
| South Africa | (R) | 4.3285 | -0.002 | 270 - 300 | 4.3390 | 4.3260 | 4.378 | -13.2 | 4.466 | -12.7 | 4.8035 | -11.0 | - |
| South Korea | (Won) | 805.800 | -6.9 | 600 - 000 | 815.200 | 805.000 | - | - | - | - | - | - | - |
| Taiwan | (T$) | 27.5520 | +0.086 | 270 - 770 | 27.5780 | 27.4630 | 27.557 | -0.2 | 27.582 | -0.1 | - | - | - |
| Thailand | (Bt) | 25.4110 | +0.021 | 060 - 160 | 25.4160 | 25.3850 | 25.5098 | -4.7 | 25.7135 | -4.8 | 26.596 | -4.7 | - |

† SDR rate per $ for Jul 2. Bid/offer spreads in the Dollar Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. UK, Ireland & ECU are quoted in US currency. J.P. Morgan nominal indices Jul 2: Base average 1990=100.

### WORLD INTEREST RATES

#### MONEY RATES

| July 3 | Over night | One month | Three mths | Six mths | One year | Lomb. inter. | Dis. rate | Repo rate |
|---|---|---|---|---|---|---|---|---|
| Belgium | 3⅜ | 3⅜ | 3⅜ | 3⅜ | 3⅝ | 7.00 | 2.50 | - |
| week ago | 3⅜ | 3⅜ | 3¼ | 3⅜ | 3⅜ | 7.00 | 2.50 | - |
| France | 3⅞ | 3¾ | 3⅞ | 3⅞ | 4 1/16 | 3.60 | - | 5.60 |
| week ago | 3¾ | 3¾ | 3⅞ | 3⅞ | 4⅛ | 3.60 | - | 5.60 |
| Germany | 3⅜ | 3⅜ | 3⅜ | 3½ | 3¾ | 4.50 | 2.50 | 3.30 |
| week ago | 3¼ | 3⅜ | 3⅜ | 3⅜ | 3⅞ | 4.50 | 2.50 | 3.30 |
| Ireland | 5⅜ | 5⅜ | 5⅝ | 5⅝ | 5⅞ | - | - | 6.25 |
| week ago | 5⅝ | 5⅜ | 5⅜ | 5¾ | 5½ | - | - | 6.25 |
| Italy | 9¼ | 8¾ | 8⅝ | 8⅜ | 8 5/16 | - | 9.00 | 9.30 |
| week ago | 9½ | 8⅝ | 8⅜ | 8⅜ | 8 5/16 | - | 9.00 | 9.30 |
| Netherlands | 2⅞ | 2⅞ | 3 | 3⅛ | 3⅛ | - | 3.00 | 3.30 |
| week ago | 2¾ | 2⅞ | 3 | 3 | 3⅜ | - | 3.00 | 3.30 |
| Switzerland | 2⅛ | 2⅛ | 2⅛ | 2⅛ | 2¾ | 5.00 | 1.50 | - |
| week ago | 1⅝ | 2⅛ | 2⅞ | 2⅞ | 2⅞ | 5.00 | 1.50 | - |
| US | 5⅜ | 5⅜ | 5⅝ | 5⅞ | 6⅛ | - | 5.00 | - |
| week ago | 5¼ | 5⅜ | 5½ | 5⅞ | 6⅛ | - | 5.00 | - |
| Japan | ½ | ½ | ½ | ½ | 1 | - | 0.50 | - |
| week ago | ½ | ½ | ½ | ½ | 1⅛ | - | 0.50 | - |
| **■ $ LIBOR FT London** | | | | | | | | |
| Interbank Fixing | - | 5½ | 5⅝ | 5⅞ | 6⅛ | - | - | - |
| week ago | - | 5½ | 5⅝ | 5¾ | 6⅛ | - | - | - |
| US Dollar CDs | - | 5.25 | 5.33 | 5.46 | 5.78 | - | - | - |
| week ago | - | 5.25 | 5.27 | 5.44 | 5.80 | - | - | - |
| ECU Linked Ds | - | 4⅜ | 4⅜ | 4⅜ | 4½ | - | - | - |
| week ago | - | 4⅜ | 4⅜ | 4⅜ | 4⅜ | - | - | - |
| SDR Linked Ds | - | 3⅜ | 3⅜ | 3⅜ | 3⅝ | - | - | - |
| week ago | - | 3⅜ | 3⅜ | 3⅜ | 3⅝ | - | - | - |

$ LIBOR interbank fixing rates are offered rates for $10m quoted to the market by four reference banks at 11am each working day. The banks are: Bankers Trust, Bank of Tokyo, Barclays and National Westminster.
Mid rates are shown for the domestic Money Rates, US$ CDs, ECU & SDR Linked Deposits (Ds).

#### EURO CURRENCY INTEREST RATES

| Jul 3 | Short term | 7 days notice | One month | Three months | Six months | One year |
|---|---|---|---|---|---|---|
| Belgian Franc | 3⅜ - 3¼ | 3¼ - 3⅛ | 3 11/32 - 3 7/32 | 3⅜ - 3¼ | 3½ - 3⅜ | 3 11/16 - 3 9/16 |
| Danish Krone | 3⅝ - 3⅜ | 3⅞ - 3 11/16 | 3⅞ - 3¾ | 3 15/16 - 3 13/16 | 4⅛ - 3⅞ | 4 5/16 - 4⅛ |
| D-Mark | 3 15/32 - 3¼ | 3⅜ - 3¼ | 3 13/32 - 3⅜ | 3⅜ - 3¼ | 3⅜ - 3¼ | 3 13/16 - 3 11/16 |
| Dutch Guilder | 2 13/16 - 2 11/16 | 2 27/32 - 2 23/32 | 2⅞ - 2 13/16 | 2 31/32 - 2 27/32 | 3 3/32 - 3 | 3 5/16 - 3¼ |
| French Franc | 3 27/32 - 3 23/32 | 3 13/16 - 3 23/32 | 3 27/32 - 3 23/32 | 3 15/16 - 3 13/16 | 4 - 3⅞ | 4 5/16 - 4⅛ |
| Portuguese Esc. | 7 13/16 - 7 11/16 | 7½ - 7 11/16 | 7⅝ - 7⅜ | 7⅜ - 7¼ | 7¼ - 7⅛ | 7¼ - 7⅛ |
| Spanish Peseta | 7⅜ - 7¼ | 7⅜ - 7⅜ | 7 11/32 - 7⅜ | 7⅜ - 7⅜ | 7 7/32 - 7 3/32 | 7 3/16 - 7 1/16 |
| Sterling | 5 13/16 - 5 11/16 | 5¾ - 5⅝ | 5⅝ - 5 9/16 | 5¾ - 5 9/16 | 5 13/16 - 5 11/16 | 6 3/16 - 5 15/16 |
| Swiss Franc | 2 13/16 - 2⅜ | 2⅝ - 2⅜ | 2⅝ - 2½ | 2⅝ - 2½ | 2¾ - 2⅝ | 2⅞ - 2¾ |
| Can. Dollar | 4 13/16 - 4⅝ | 4¾ - 4⅝ | 4 13/16 - 4⅝ | 4 13/16 - 4 11/16 | 5 - 4⅞ | 5½ - 5⅜ |
| US Dollar | 5⅜ - 5 5/16 | 5⅜ - 5¼ | 5⅜ - 5¼ | 5½ - 5⅜ | 5 13/16 - 5½ | 6 - 5 13/16 |
| Italian Lira | 9⅜ - 9⅛ | 9½ - 9¼ | 9 - 8⅞ | 8 13/16 - 8 11/16 | 8¾ - 8⅝ | 8⅝ - 8½ |
| Yen | ½ - ⅜ | ½ - ⅜ | ⅝ - ½ | ⅝ - ½ | ¾ - ⅝ | 1 1/16 - 15/16 |
| Asian $Sing | 3⅛ - 3 | 3⅛ - 3 | 3⅛ - 3 | 3⅛ - 3 | 3⅛ - 3 | 3 5/16 - 2 15/16 |

Short term rates are call for the US Dollar and Yen, others: two days' notice.

■ THREE MONTH PIBOR FUTURES (MATIF) Paris Interbank offered rate (FFr 5m)

| | Open | Sett price | Change | High | Low | Est. vol | Open int. |
|---|---|---|---|---|---|---|---|
| Sep | 95.99 | 96.00 | -0.01 | 96.00 | 95.96 | 9,318 | 70,656 |
| Dec | 95.77 | 95.80 | -0.03 | 95.81 | 95.77 | 5,387 | 43,443 |
| Mar | 95.58 | 95.57 | -0.03 | 95.58 | 95.54 | 2,440 | 24,924 |

■ THREE MONTH EUROMARK FUTURES (LIFFE)* DM1m points of 100%

| | Open | Sett price | Change | High | Low | Est. vol | Open int. |
|---|---|---|---|---|---|---|---|
| Sep | 96.51 | 96.52 | -0.01 | 96.54 | 96.50 | 20589 | 194454 |
| Dec | 96.28 | 96.30 | -0.01 | 96.33 | 96.26 | 30034 | 201548 |
| Mar | 95.94 | 95.96 | -0.02 | 95.99 | 95.92 | 27564 | 189397 |
| Jun | 95.55 | 95.57 | -0.02 | 95.59 | 95.53 | 14649 | 109683 |

■ THREE MONTH EUROLIRA FUTURES (LIFFE)* L1000m points of 100%

| | Open | Sett price | Change | High | Low | Est. vol | Open int. |
|---|---|---|---|---|---|---|---|
| Sep | 91.83 | 91.86 | +0.01 | 92.00 | 91.81 | 8272 | 60056 |
| Dec | 92.22 | 92.25 | +0.02 | 92.30 | 92.21 | 2580 | 35215 |
| Mar | 92.31 | 92.35 | +0.03 | 92.46 | 92.30 | 923 | 20702 |
| Jun | 92.22 | 92.26 | +0.03 | 92.29 | 92.22 | 560 | 10916 |

■ THREE MONTH EURO SWISS FRANC FUTURES (LIFFE) SFr1m points of 100%

| | Open | Sett price | Change | High | Low | Est. vol | Open int. |
|---|---|---|---|---|---|---|---|
| Sep | 97.36 | 97.40 | +0.02 | 97.45 | 97.36 | 5898 | 35826 |
| Dec | 97.18 | 97.21 | +0.01 | 97.25 | 97.18 | 2117 | 19687 |
| Mar | 97.01 | 96.99 | +0.02 | 97.02 | 96.99 | 722 | 8411 |
| Jun | 96.72 | 96.71 | +0.02 | 96.73 | 96.71 | 200 | 1226 |

■ THREE MONTH EUROYEN FUTURES (LIFFE) Y100m points of 100%

| | Open | Sett price | Change | High | Low | Est. vol | Open int. |
|---|---|---|---|---|---|---|---|
| Sep | 99.16 | 99.18 | - | 99.18 | 99.16 | 440 | n/a |
| Dec | 98.81 | 98.81 | -0.01 | 98.81 | 98.79 | 322 | n/a |
| Mar | 98.49 | 98.51 | - | 98.49 | 98.49 | 18 | n/a |

■ THREE MONTH ECU FUTURES (LIFFE) Ecu1m points of 100%

| | Open | Sett price | Change | High | Low | Est. vol | Open int. |
|---|---|---|---|---|---|---|---|
| Sep | 95.56 | 95.55 | -0.02 | 95.57 | 95.54 | 1205 | 7393 |
| Dec | 95.38 | 95.38 | -0.03 | 95.41 | 95.38 | 897 | 4729 |
| Mar | 95.14 | 95.13 | -0.03 | 95.17 | 95.13 | 281 | 2992 |
| Jun | 94.86 | 94.83 | -0.04 | 94.86 | 94.84 | 152 | 2347 |

* LIFFE futures also traded on APT

### CROSS RATES AND DERIVATIVES

#### EXCHANGE CROSS RATES

| July 3 | | BFr | DKr | FFr | DM | I£ | L | Fl | NKr | Es | Pta | SKr | SFr | £ | C$ | $ | Y | Ecu |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Belgium | (BFr) | 100 | 18.71 | 16.41 | 4.855 | 1.993 | 4886 | 5.443 | 20.70 | 499.0 | 408.1 | 21.25 | 3.996 | 2.042 | 4.330 | 3.183 | 352.0 | 2.580 |
| Denmark | (DKr) | 53.46 | 10 | 8.773 | 2.596 | 1.065 | 2612 | 2.910 | 11.07 | 266.8 | 218.2 | 11.36 | 2.138 | 1.091 | 2.315 | 1.702 | 188.2 | 1.369 |
| France | (FFr) | 60.94 | 11.40 | 10 | 2.958 | 1.214 | 2977 | 3.317 | 12.62 | 304.1 | 248.7 | 12.95 | 2.435 | 1.244 | 2.639 | 1.940 | 214.5 | 1.560 |
| Germany | (DM) | 20.60 | 3.853 | 3.380 | 1 | 0.410 | 1006 | 1.121 | 4.264 | 102.8 | 84.06 | 4.378 | 0.823 | 0.421 | 0.892 | 0.656 | 72.50 | 0.527 |
| Ireland | (I£) | 50.18 | 9.387 | 8.236 | 2.436 | 1 | 2452 | 2.732 | 10.39 | 250.4 | 204.8 | 10.67 | 2.005 | 1.025 | 2.173 | 1.597 | 176.6 | 1.285 |
| Italy | (L) | 2.047 | 0.383 | 0.336 | 0.099 | 0.041 | 100. | 0.111 | 0.424 | 10.21 | 8.354 | 0.435 | 0.082 | 0.042 | 0.089 | 0.065 | 7.204 | 0.052 |
| Netherlands | (Fl) | 18.37 | 3.437 | 3.015 | 0.892 | 0.366 | 897.6 | 1 | 3.803 | 91.67 | 74.98 | 3.905 | 0.734 | 0.375 | 0.795 | 0.585 | 64.67 | 0.470 |
| Norway | (NKr) | 48.30 | 9.036 | 7.927 | 2.345 | 0.963 | 2360 | 2.629 | 10 | 241.0 | 197.1 | 10.27 | 1.930 | 0.986 | 2.092 | 1.537 | 170.0 | 1.237 |
| Portugal | (Es) | 20.04 | 3.749 | 3.289 | 0.973 | 0.399 | 979.1 | 1.091 | 4.149 | 100. | 81.79 | 4.259 | 0.801 | 0.409 | 0.868 | 0.638 | 70.53 | 0.513 |
| Spain | (Pta) | 24.50 | 4.583 | 4.021 | 1.190 | 0.488 | 1197 | 1.334 | 5.073 | 122.3 | 100. | 5.208 | 0.979 | 0.500 | 1.061 | 0.780 | 86.24 | 0.627 |
| Sweden | (SKr) | 47.05 | 8.801 | 7.721 | 2.284 | 0.938 | 2299 | 2.561 | 9.741 | 234.8 | 192.0 | 10 | 1.880 | 0.961 | 2.037 | 1.498 | 165.6 | 1.205 |
| Switzerland | (SFr) | 25.03 | 4.682 | 4.107 | 1.215 | 0.499 | 1223 | 1.362 | 5.181 | 124.9 | 102.1 | 5.319 | 1 | 0.511 | 1.084 | 0.797 | 88.09 | 0.641 |
| UK | (£) | 48.98 | 9.162 | 8.038 | 2.378 | 0.976 | 2393 | 2.666 | 10.14 | 244.4 | 199.9 | 10.41 | 1.957 | 1 | 2.121 | 1.559 | 172.4 | 1.254 |
| Canada | (C$) | 23.09 | 4.320 | 3.790 | 1.121 | 0.460 | 1128 | 1.257 | 4.781 | 115.2 | 94.25 | 4.908 | 0.923 | 0.471 | 1 | 0.735 | 81.28 | 0.591 |
| US | ($) | 31.42 | 5.877 | 5.156 | 1.525 | 0.626 | 1535 | 1.710 | 6.504 | 156.8 | 128.2 | 6.677 | 1.255 | 0.641 | 1.360 | 1 | 110.6 | 0.804 |
| Japan | (Y) | 28.41 | 5.314 | 4.662 | 1.379 | 0.566 | 1388 | 1.546 | 5.882 | 141.8 | 115.9 | 6.038 | 1.135 | 0.580 | 1.230 | 0.904 | 100. | 0.727 |
| Ecu | | 39.06 | 7.306 | 6.410 | 1.896 | 0.778 | 1908 | 2.126 | 8.086 | 194.9 | 159.4 | 8.301 | 1.561 | 0.797 | 1.691 | 1.243 | 137.5 | 1 |

Danish Kroner, French Franc, Norwegian Kroner, and Swedish Kronor per 10; Belgian Franc, Yen, Escudo, Lira and Peseta per 100.

■ D-MARK FUTURES (IMM) DM 125,000 per DM

| | Open | Latest | Change | High | Low | Est. vol | Open int. |
|---|---|---|---|---|---|---|---|
| Sep | 0.6581 | 0.6580 | -0.0003 | 0.6585 | 0.6565 | 9,857 | 53,831 |
| Dec | 0.6606 | 0.6615 | -0.0003 | 0.6618 | 0.6608 | 17 | 1,985 |
| Mar | - | 0.6662 | - | - | - | 265 | 288 |

■ SWISS FRANC FUTURES (IMM) SFr 125,000 per SFr

| | Open | Latest | Change | High | Low | Est. vol | Open int. |
|---|---|---|---|---|---|---|---|
| Sep | 0.8044 | 0.8017 | -0.0031 | 0.8052 | 0.8008 | 5,118 | 35,901 |
| Dec | 0.8075 | 0.8080 | -0.0031 | 0.8080 | 0.8075 | 15 | 1,168 |
| Mar | - | 0.8177 | - | - | - | 9 | 55 |

■ JAPANESE YEN FUTURES (IMM) Yen 12.5 per Yen 100

| | Open | Latest | Change | High | Low | Est. vol | Open int. |
|---|---|---|---|---|---|---|---|
| Sep | 0.9155 | 0.9142 | -0.0012 | 0.9170 | 0.9130 | 20,810 | 78,157 |
| Dec | 0.9245 | 0.9254 | -0.0016 | 0.9254 | 0.9245 | 115 | 3,734 |
| Mar | - | 0.9366 | - | - | 0.9335 | 7 | 136 |

■ STERLING FUTURES (IMM) £62,500 per £

| | Open | Latest | Change | High | Low | Est. vol | Open int. |
|---|---|---|---|---|---|---|---|
| Sep | 1.5588 | 1.5596 | +0.0006 | 1.5598 | 1.5568 | 5,472 | 47,030 |
| Dec | - | 1.5570 | - | - | 1.5560 | 27 | 1,083 |
| Mar | - | 1.5570 | - | - | 1.5570 | 1 | 6 |

### UK INTEREST RATES

#### LONDON MONEY RATES

| Jul 3 | Over-night | 7 days notice | One month | Three months | Six months | One year |
|---|---|---|---|---|---|---|
| Interbank Sterling | 6 - 5 | 5⅞ - 5⅝ | 5⅝ - 5½ | 5⅝ - 5½ | 5⅞ - 5¾ | 6⅛ - 6 |
| Sterling CDs | - | - | 5⅝ - 5½ | 5⅝ - 5½ | 5¾ - 5⅝ | 6 - 5⅞ |
| Treasury Bills | - | - | 5⅜ - 5¼ | 5⅜ - 5¼ | - | - |
| Bank Bills | - | - | 5⅜ - 5¼ | 5⅜ - 5¼ | 5½ - 5⅜ | - |
| Local authority deps. | 5⅝ - 5½ | 5⅝ - 5½ | 5⅝ - 5½ | 5⅝ - 5½ | 5¾ - 5⅝ | 6 - 5⅞ |
| Discount Market deps | 5¾ - 5½ | 5¾ - 5⅝ | - | - | - | - |

UK clearing bank base lending rate 5¾ per cent from June 6, 1996

| | Up to 1 month | 1-3 month | 3-6 months | 6-9 months | 9-12 months |
|---|---|---|---|---|---|
| Certs of Tax dep. (£100,000) | 2½ | 5 | 5 | 5 | 4½ |

Certs of Tax dep. under £100,000 is 2½pc. Deposits withdrawn for cash 1½pc.
Ave tender rate of discount on Jun 21, 5.5967pc. ECGD fixed rate Stlg. Export Finance. Make up day Jun 28, 1996. Agreed rate for period Jul 24, 1996 to Aug 25, 1996, Scheme II & III 7.22pc. Reference rate for period Jun 1, 1996 to Jun 28, 1996, Scheme IV & V 5.938pc. Finance House Base Rate 6pc from Jul 1, 1996

■ THREE MONTH STERLING FUTURES (LIFFE) £500,000 points of 100%

| | Open | Sett price | Change | High | Low | Est. vol | Open int. |
|---|---|---|---|---|---|---|---|
| Sep | 94.28 | 94.25 | -0.03 | 94.30 | 94.25 | 19080 | 95378 |
| Dec | 94.11 | 94.09 | -0.03 | 94.15 | 94.08 | 19440 | 83995 |
| Mar | 93.78 | 93.78 | -0.02 | 93.83 | 93.75 | 9813 | 59577 |
| Jun | 93.34 | 93.31 | -0.03 | 93.37 | 93.30 | 6378 | 42148 |
| Sep | 92.94 | 92.91 | -0.04 | 92.98 | 92.91 | 1478 | 29229 |

Also traded on APT. All Open interest figs. are for previous day

■ SHORT STERLING OPTIONS (LIFFE) £500,000 points of 100%

| Strike Price | Calls Sep | Calls Dec | Calls Mar | Puts Sep | Puts Dec | Puts Mar |
|---|---|---|---|---|---|---|
| 9425 | 0.10 | 0.14 | 0.14 | 0.10 | 0.30 | 0.61 |
| 9450 | 0.03 | 0.06 | 0.08 | 0.28 | 0.47 | 0.80 |
| 9475 | 0.01 | 0.02 | 0.04 | 0.51 | 0.68 | 1.01 |

Est. vol. total, Calls 10032 Puts 8252. Previous day's open int., Calls 118740 Puts 98058

#### EMS EUROPEAN CURRENCY UNIT RATES

| Jul 3 | Ecu cen. rates | Rate against Ecu | Change on day | % +/- from cen. rate | % spread v weakest | Div. ind. |
|---|---|---|---|---|---|---|
| Ireland | 0.792214 | 0.786212 | -0.000081 | -0.76 | 2.19 | 5 |
| Spain | 162.493 | 161.295 | +0.115 | -0.74 | 2.17 | 5 |
| Netherlands | 2.15214 | 2.15214 | +0.00135 | 0.00 | 1.41 | -0 |
| Belgium | 39.3960 | 39.4742 | +0.0137 | 0.20 | 1.21 | -0 |
| Germany | 1.91007 | 1.91774 | +0.00041 | 0.40 | 1.01 | -4 |
| Austria | 13.4383 | 13.4989 | +0.0022 | 0.44 | 0.97 | -3 |
| Portugal | 195.792 | 197.042 | -0.025 | 0.64 | 0.77 | -4 |
| France | 6.40608 | 6.48193 | +0.00005 | 1.18 | 0.23 | -10 |
| Denmark | 7.28580 | 7.38875 | +0.00249 | 1.41 | 0.00 | -10 |
| NON ERM MEMBERS | | | | | | |
| Greece | 292.867 | 301.081 | -0.269 | 2.80 | -1.35 | - |
| Italy | 2106.15 | 1929.73 | +1.8 | -8.42 | 10.74 | - |
| UK | 0.786652 | 0.805655 | -0.000447 | 2.42 | -0.98 | - |

Ecu central rates set by the European Commission. Currencies are in descending relative strength. Percentage changes are for Ecu; a positive change denotes a weak currency. Divergence shows the ratio between two spreads: the percentage difference between the actual market and Ecu central rates for a currency, and the maximum permitted percentage deviation of the currency's market rate from its Ecu central rate.
(17/9/92) Sterling and Italian Lira suspended from ERM. Adjustment calculated by the Financial Times.

■ PHILADELPHIA SE £/$ OPTIONS £31,250 (cents per pound)

| Strike Price | Calls Jul | Calls Aug | Calls Sep | Puts Jul | Puts Aug | Puts Sep |
|---|---|---|---|---|---|---|
| 1.520 | 3.82 | 3.95 | 4.16 | 0.04 | 0.13 | 0.35 |
| 1.530 | 2.84 | 3.12 | 3.37 | 0.05 | 0.23 | 0.57 |
| 1.540 | 1.96 | 2.40 | 2.67 | 0.13 | 0.52 | 0.85 |
| 1.550 | 1.15 | 1.74 | 2.09 | 0.28 | 0.85 | 1.23 |
| 1.560 | 0.54 | 1.19 | 1.56 | 0.61 | 1.30 | 1.70 |

Previous day's vol., Calls 7,109 Puts 3,718. Prev. day's open int., Calls 147,284 Puts 124,727

■ THREE MONTH EURODOLLAR (IMM) $1m points of 100%

| | Open | Latest | Change | High | Low | Est. vol | Open int. |
|---|---|---|---|---|---|---|---|
| Sep | 94.21 | 94.20 | -0.01 | 94.22 | 94.20 | 81,296 | 405,231 |
| Dec | 93.90 | 93.91 | - | 93.92 | 93.90 | 136,561 | 434,311 |
| Mar | 93.73 | 93.75 | +0.01 | 93.76 | 93.73 | 128,335 | 289,610 |

■ US TREASURY BILL FUTURES (IMM) $1m per 100%

| | Open | Latest | Change | High | Low | Est. vol | Open int. |
|---|---|---|---|---|---|---|---|
| Sep | 94.73 | 94.73 | - | 94.73 | 94.73 | 187 | 8,433 |
| Dec | 94.52 | 94.51 | - | 94.52 | 94.50 | 126 | 1,755 |
| Mar | - | 94.35 | - | - | - | 46 | 72 |

All Open interest figs. are for previous day

■ EUROMARK OPTIONS (LIFFE) DM1m points of 100%

| Strike Price | Calls Jul | Calls Aug | Calls Sep | Calls Dec | Puts Jul | Puts Aug | Puts Sep | Puts Dec |
|---|---|---|---|---|---|---|---|---|
| 9650 | 0.05 | 0.10 | 0.12 | 0.11 | 0.03 | 0.08 | 0.10 | 0.31 |
| 9675 | 0 | 0.02 | 0.03 | 0.04 | 0.23 | 0.25 | 0.26 | 0.49 |
| 9700 | 0 | 0 | 0.01 | 0.01 | 0.48 | 0.48 | 0.49 | 0.71 |

Est. vol. total, Calls 7201 Puts 1882. Previous day's open int., Calls 276841 Puts 303380

■ EURO SWISS FRANC OPTIONS (LIFFE) SFr 1m points of 100%

| Strike Price | Calls Sep | Calls Dec | Calls Mar | Puts Sep | Puts Dec | Puts Mar |
|---|---|---|---|---|---|---|
| 9750 | 0.10 | 0.12 | 0.12 | 0.20 | 0.41 | 0.63 |
| 9775 | 0.04 | 0.06 | 0.06 | 0.38 | 0.60 | 0.82 |

Est. vol. total, Calls 0 Puts 0. Previous day's open int., Calls 3185 Puts 4695

■ EUROLIRA OPTIONS (LIFFE) L1000m points of 100%

| Strike Price | Calls Sep | Calls Dec | Calls Mar | Puts Sep | Puts Dec | Puts Mar |
|---|---|---|---|---|---|---|
| 9175 | 0.28 | 0.67 | 0.85 | 0.17 | 0.17 | 0.25 |
| 9200 | 0.17 | 0.50 | 0.67 | 0.31 | 0.25 | 0.32 |
| 9225 | 0.06 | 0.37 | 0.51 | 0.47 | 0.35 | 0.42 |

Est. vol. total, Calls 300 Puts 280. Previous day's open int., Calls 36944 Puts 18508

#### BASE LENDING RATES

| | % | | % | | % |
|---|---|---|---|---|---|
| Adam & Company | 5.75 | Duncan Lawrie | 5.75 | Royal Bk of Scotland | 5.75 |
| Allied Trust Bank | 5.75 | Exeter Bank Limited | 6.75 | •Singer & Friedlander | 5.75 |
| AIB Bank | 5.75 | Financial & Gen Bank | 7.00 | •Smith & Williamson Secs | 5.75 |
| •Henry Ansbacher | 5.75 | •Robert Fleming & Co | 5.75 | Scottish Widows Bank | 5.75 |
| Bank of Baroda | 5.75 | Girobank | 5.75 | TSB | 5.75 |
| Banco Bilbao Vizcaya | 5.75 | •Guinness Mahon | 5.75 | United Bank of Kuwait | 5.75 |
| Bank of Cyprus | 5.75 | Habib Bank AG Zurich | 5.75 | Unity Trust Bank Plc | 5.75 |
| Bank of Ireland | 5.75 | •Hambros Bank | 5.75 | Western Trust | 5.75 |
| Bank of India | 5.75 | Heritable & Gen Inv Bk | 5.75 | Whiteaway Laidlaw | 5.75 |
| Bank of Scotland | 5.75 | •Hill Samuel | 5.75 | Yorkshire Bank | 5.75 |
| Barclays Bank | 5.75 | C. Hoare & Co | 5.75 | | |
| Brit Bk of Mid East | 5.75 | Hongkong & Shanghai | 5.75 | | |
| •Brown Shipley & Co Ltd | 5.75 | Julian Hodge Bank | 5.75 | | |
| Citibank NA | 5.75 | •Leopold Joseph & Sons | 5.75 | | |
| Clydesdale Bank | 5.75 | Lloyds Bank | 5.75 | | |
| The Co-operative Bank | 5.75 | Meghraj Bank Ltd | 5.75 | | |
| Coutts & Co | 5.75 | Midland Bank | 5.75 | | |
| Credit Lyonnais | 5.75 | * Mount Credit Corp | 6.00 | | |
| Cyprus Popular Bank | 5.75 | NatWestminster | 5.75 | | |
| | | •Rea Brothers | 5.75 | | |

• Members of London Investment Banking Association
* In administration

## COMMODITIES AND AGRICULTURE

# Diamond price rise confirms confidence boost

By Richard Mooney

Further evidence of a revival of confidence in the world diamond market was given yesterday when De Beers' Central Selling Organisation announced that it would raise its prices with effect from next Monday.

It said the overall price rise would be 3 per cent. For rough (uncut) gem diamonds above one carat in weight the average increase would 7 per cent, with prices increasing progressively with size.

Signs that the diamond market was recovering from a setback to confidence caused by a falling out between De Beers and the Russian government were underlined two weeks ago when the South African company, which dominates the world rough diamond trade through its CSO cartel, reported that its sales in the first half of 1996 had reached a record level of US$2.748bn. That was 8.2 per cent up on the same period last year.

The CSO attributed the sales upturn to the signing in February of a Memorandum of Understanding between the Russian government and De Beers under which 87.5 per cent of Russian diamond production, which is worth between $1.2bn and 1.3bn a year, would be sold through the CSO. Under the previous contract Russian had only been alloted 5 per cent of its production for direct sales.

The signing of a full trade agreement had been delayed by the political situation in the run-up to the Russian elections, but the CSO said the signing of the MoU had "dispelled much of the uncertainty which had had a negative impact on the rough [diamond] market for most of 1995".

MARKET REPORT

# London coffee prices recover from lows

Robusta COFFEE futures touched new five-month lows at the London Commodity Exchange yesterday after the weekend was predicted to be frost free in Brazilian growing areas. But they had recovered by the close.

"All eyes are trained on [Brazilian] weather forecasts and they are certainly unpredictable," said one trader.

At the close the September delivery contract was up $3 at $1,680 a tonne after sinking to a session low of $1,652 – the lowest since it touched $1,647 on January 25. The spot July contract ended the session down $12 at $1,690 a tonne, up from a low of $1,664.

Fund and speculative selling, said traders, was met by roaster buying and bargain hunting.

LCE COCOA futures presented a mirror image, giving up early gains to end flat to marginally lower on origin selling and long liquidation, traders said.

Activity was thin ahead of the four-day Independence Day holiday weekend in the US.

Grabbing the market's attention was a big drop in the March 1997 uncovered open interest. Traders said the fall of 7,390 lots to 27,792 could reflect liquidation by a trader who is said to hold a large long position in September against shorts in December and March.

Compiled from Reuters

# Irrigation whets farming appetites in Australia's 'top end'

## Nikki Tait reports on a revival of interest in the Northern Territory's Ord River project

Fly about 200 miles west from Katherine, in Australia's Northern Territory, and suddenly the grey-green gums and red earth of the outback vanish.

Instead, there are lush green fields, ploughed and planted, stretching as far as the eye can see. Water channels glisten and, in the distance, a large blue lake is visible. In the context of the Australian bush, it is an astonishing sight.

This is the Ord River irrigation project – by no means Australia's largest irrigation scheme, but almost certainly its most ambitious and controversial.

At first sight, irrigating and developing productive agricultural land that is only a few hours' flight from the big consumer markets of South-East Asia, would seem to be a cinch. Yet, between 1960 and the mid-1980s, around A$500m (US$396m) was poured into the Ord scheme, generating little beyond negative returns and a "white elephant" tag.

Today, however, the Ord scheme is enjoying a tentative renaissance, suggesting that the century-old dream of tapping Australia's northern rivers and building an agricultural base in the country "top end" may not be entirely fanciful.

Companies like Britain's ICI and CSR, Australia's largest sugar producer, have interests in the development. Local hydro-electric power generation has been established, and the area's output, worth only A$8m in 1985, is expected to be almost eight times that figure in the current financial year.

But the big test will come in the next few months, when growers and developers are asked to put forward plans which could open up a further 65,000 hectares of agricultural land, almost five times' the amount utilised at present.

According to Mr Richard Elsey, consultant to Western Australia's Department of Resources Development, there has been interest both within Australia and internationally, with most potential investors hoping to harness the region's proximity to Asia. Mr Peter Frawley, head of CSR's sugar division, agrees: "The food-growing potential is tremendous", he says.

But even the scheme's staunchest supporters admit that there could be bumps along the way. "It's definitely going to happen," says Mr Peter McCosker, project co-ordinator for the Ord Development Council, "but it is likely to go in stages".

The reasons for the Ord's see-sawing prospects are various. The project began in the late-1950s, following a federal government commitment to develop the remote Kimberley region. Initially, a modest diversion dam was built across the Ord River, which flowed furiously during the monsoonal "wet" season, and then dried up for the rest of the year. A decade later, this was augmented by a more substantial barrier, 50km upstream, which created Lake Argyle. Today, the man-made lake contains 40 times more water than Sydney Harbour.

Unfortunately, while irrigation worked well, much of the land was planted to cotton. Insects descended, and after a decade of mounting insecticide use, the crop had to be abandoned. By that stage, many of the original farmers had suffered big financial losses. It took another ten years for the region to switch over to a broader horticulture base – from chickpeas to bananas – and slowly clamber back to viability.

> The Ord project is by no means Australia's biggest irrigation scheme, but it is almost certainly the most ambitious and controversial

The second dam, however, created irrigation possibilities for almost 80,000 hectares, of which only 14,000 hectares are so far developed. To open up the remainder, another main irrigation channel would be needed. The cost of this would probably reach A$80m once roads and drainage were added in, with actual farm development (from ground preparation to water supply distribution) adding further A$90m.

But two types of land would then become available – loamy soils along the river bank, and clay further out. The former could be used to expand the high-returning horticultural industry. The latter would suit a major "base crop".

Many local growers see sugar is seen as the obvious possibility. After some pushing their part, CSR agreed to invest A$40m in a mill, and this will have its first full year of crushing in 1996. At present, it is a small-scale venture: about 500,000 tonnes of cane is grown under contract by 25 farmers, and 70,000 tonnes of raw sugar produced. Significantly, though, it is one of the few mills to be built outside the protected Queensland sugar industry.

Mr Frawley says that CSR would want to see the results of a full year's production before considering expansion. The first option would then be to double the capacity of the existing mill, a decision which could be taken in mid-1997. Only after that would CSR entertain a much larger expansion.

But sugar is not the crop being trialled. Remarkably, cotton possibilities are also being re-examined – thanks to new, genetically-engineered strains that supposedly withstand pest attacks without heavy insecticide use. Growers, meanwhile, are keen to encourage local processing: one suggestion is for a tomato paste business, which could harness surplus energy from the sugar-milling process.

Another, more exotic idea is to farm sandalwood, a high-value parasitic tree whose oil is used as a perfume base. Trial plantings have already been established, and are said to fare well.

No one pretends, however, that further development will be obstacle-free. Infrastructure is still limited, with the airstrip at Kununurra, the central town, being designed for smaller aircraft (BAe146s or below). Facilities at the highly-tidal port of Wyndham, 50km away, would also need to be revamped if large quantities of sugar were to be shipped out.

The Western Australian government says it is open-minded on the up-front infrastructure contribution it might be prepared to make for further development, although it would plainly prefer maximum private sector involvement.

Native title claims are another uncertainly, with much of the land under claim from the Mirrawung-Gajerrong peoples. This month, some progress was made when aboriginal communities agreed to permit hydrogeological drilling work on Ord project land in return for guarantees of secure tenure in Kimberley region. The hope is that a broader "economic benefits" package, which allows land in the irrigation zone to be sold as freehold, can eventually be reached.

Climate is also not quite perfect. While the area is sufficiently far inland to escape cyclones, it can catch the tail-end of storm patterns. McCosker says that banana-growers, for example, are still trying to assess the vulnerability of their crops. Groundwater, too, has been rising on the main plains which have already been irrigated. "It is an issue which has to be addressed," he cautions.

These difficulties acknowledged, however, at least one independent report has suggested that returns from further development could be highly-attractive. A cost-benefit analysis by Hassall & Associates, the agricultural consultancy firm, assessed the economics of continued expansion for another three decades, and concluded that this was likely to generate a total internal rate of return since the project's inception in 1959 of three to five per cent.

But if the major capital expenditures to date were treated as "sunk costs" – and effectively written off – the internal rate of return on the next phase of development could be anywhere from 36 to 61 per cent.

"On the basis of the overall growth predicted by Fluor Daniel/Menlo. . . it is possible that, by 2020-21, agriculture on the Ord could contribute at least 16 per cent of the gross value of agricultural production in Western Australia, compared with only 2 per cent in 1990-91," it suggested.

# African commodity exporters 'need cheap credit to compete'

Africa's commodity exporters needed access to cheap credit and risk management tools to compete with foreign firms following reforms of national marketing structures, a banking official told a conference here yesterday, reports Reuters from Abidjan.

Washington-based World Bank economist Mr Panos Varangis told the annual workshop of the UN Common Fund for Commodities that banks were often reluctant to fund new local buyers and exporters because they thought the risk was too high.

"The question of who will finance crop exports is crucial for countries contemplating the removal of government commodity marketing boards," he said.

The financing risk was increased by operators' lack of track-record in exporting good quality commodities on terms agreed with buyers, doubts about their competitiveness, poor warehousing facilities and a lack of sanctions to make them comply with contract terms.

Mr Christopher Edordu, president of the Cairo-based African Export-Import Bank (Afreximbank), said poor access to credit had hindered new exporters and also fostered market imperfection. "The movement of foreign buyers into origin countries where they directly buy from growers is the result of institutional gaps that followed liberalisation," he said in a paper.

In some countries, he added, big foreign firms now had dominant roles similar to old state monopolies because they were able to raise funds at good rates from international banks.

## COMMODITIES PRICES

### BASE METALS

**LONDON METAL EXCHANGE**
(Prices from Amalgamated Metal Trading)

■ ALUMINIUM, 99.7 PURITY ($ per tonne)

| | Cash | 3 mths |
|---|---|---|
| Close | 1471.5-72.5 | 1508-09 |
| Previous | 1457-58 | 1494-4.5 |
| High/low | 1469 | 1509.5/1498 |
| AM Official | 1470-71 | 1504.5-05 |
| Kerb close | | 1509-9.5 |
| Open int. | 237,994 | |
| Total daily turnover | 38,459 | |

■ ALUMINIUM ALLOY ($ per tonne)

| | | |
|---|---|---|
| Close | 1250-55 | 1285-88 |
| Previous | 1245-55 | 1280-90 |
| High/low | | 1287/1282 |
| AM Official | 1250-55 | 1285-87 |
| Kerb close | | 1285-90 |
| Open int. | 5,304 | |
| Total daily turnover | 321 | |

■ LEAD ($ per tonne)

| | | |
|---|---|---|
| Close | 784-5 | 794-5 |
| Previous | 781-2 | 790.5-1 |
| High/low | 785 | 796/789 |
| AM Official | 784.5-5 | 794.5-5 |
| Kerb close | | 792-3 |
| Open int. | 32,802 | |
| Total daily turnover | 4,447 | |

■ NICKEL ($ per tonne)

| | | |
|---|---|---|
| Close | 7605-15 | 7715-20 |
| Previous | 7580-90 | 7690-700 |
| High/low | 7636 | 7785/7675 |
| AM Official | 7636-40 | 7740-45 |
| Kerb close | | 7680-90 |
| Open int. | 41,958 | |
| Total daily turnover | 4,137 | |

■ TIN ($ per tonne)

| | | |
|---|---|---|
| Close | 6380-90 | 6410-15 |
| Previous | 6360-70 | 6390-95 |
| High/low | | 6435/6370 |
| AM Official | 6385-90 | 6410-15 |
| Kerb close | | 6420-25 |
| Open int. | 15,952 | |
| Total daily turnover | 4,887 | |

■ ZINC, special high grade ($ per tonne)

| | | |
|---|---|---|
| Close | 1005-06 | 1032.5-33 |
| Previous | 1003.5-4.5 | 1031-31.5 |
| High/low | 1006.5 | 1035/1030 |
| AM Official | 1006.5-7 | 1033.5-34 |
| Kerb close | | 1034-35 |
| Open int. | 68,956 | |
| Total daily turnover | 6,565 | |

■ COPPER, grade A ($ per tonne)

| | | |
|---|---|---|
| Close | 1963-68 | 1910-12 |
| Previous | 1942-47 | 1903-05 |
| High/low | 1996/1969 | 1948/1890 |
| AM Official | 1996-97 | 1942-43 |
| Kerb close | | 1897-99 |
| Open int. | 200,115 | |
| Total daily turnover | 45,921 | |

■ LME AM Official £/$ rate: 1.5580
LME Closing £/$ rate: 1.5594

Spot: 1.5591 3 mths: 1.5585 6 mths: 1.5592 9 mths: 1.5602

■ HIGH GRADE COPPER (COMEX)

| | Sett price | Day's change | High | Low | Vol | Open int |
|---|---|---|---|---|---|---|
| Jul | 93.15 | +0.20 | 92.40 | 88.95 | 1,168 | 4,943 |
| Aug | 88.40 | -0.15 | 91.00 | 89.00 | 108 | 2,128 |
| Sep | 87.80 | -0.35 | 91.10 | 87.50 | 3,179 | 19,683 |
| Oct | 87.60 | -0.55 | - | - | 11 | 1,225 |
| Nov | 87.50 | -0.65 | - | - | 15 | 1,090 |
| Dec | 87.45 | -0.40 | 90.30 | 87.45 | 512 | 12,349 |
| Total | | | | | 5,536 | 57,051 |

### PRECIOUS METALS

■ LONDON BULLION MARKET
(Prices supplied by N M Rothschild)

| Gold(Troy oz) | $ price | £ equiv | SFr equiv |
|---|---|---|---|
| Close | 382.00-382.40 | | |
| Opening | 382.40-382.80 | | |
| Morning fix | 382.50 | 245.62 | 479.46 |
| Afternoon fix | 381.95 | 245.04 | 479.35 |
| Day's High | 382.60-383.00 | | |
| Day's Low | 381.80-382.20 | | |
| Previous close | 381.60-391.90 | | |

Loco Ldn Mean Gold Lending Rates (Vs US$)

| | | | |
|---|---|---|---|
| 1 month | 4.04 | 6 months | 3.84 |
| 2 months | 3.88 | 12 months | 3.82 |
| 3 months | 3.98 | | |

| Silver Fix | p/troy oz. | US cts equiv. |
|---|---|---|
| Spot | 329.85 | 513.75 |
| 3 months | 334.00 | 520.05 |
| 6 months | 339.10 | 526.70 |
| 1 year | 346.45 | 540.20 |

| Gold Coins | $ price | £ equiv. |
|---|---|---|
| Krugerrand | 382.5-385.5 | 245-247 |
| Maple Leaf | 391.15-393.60 | |
| New Sovereign | 87-89 | 56-57 |

### Precious Metals continued

■ GOLD COMEX (100 Troy oz.; $/troy oz.)

| | Sett price | Day's change | High | Low | Vol | Open int |
|---|---|---|---|---|---|---|
| Jul | 381.5 | -0.8 | - | - | 10 | 10 |
| Aug | 382.5 | -0.8 | 384.0 | 382.4 | 13,931 | 87,798 |
| Oct | 385.1 | -0.8 | 386.2 | 385.0 | 414 | 7,447 |
| Dec | 387.7 | -0.8 | 389.3 | 387.5 | 978 | 39,090 |
| Feb | 390.2 | -0.8 | 388.7 | 389.7 | 37 | 8,437 |
| Apr | 392.6 | -0.8 | 393.0 | 393.0 | 710 | 5,830 |
| Total | | | | | 16,862 | 186,152 |

■ PLATINUM NYMEX (50 Troy oz.; $/troy oz.)

| | | | | | | |
|---|---|---|---|---|---|---|
| Jul | 392.3 | -0.7 | 394.0 | 390.5 | 32 | 1,188 |
| Oct | 395.0 | -1.0 | 397.5 | 395.0 | 421 | 20,741 |
| Jan | 397.8 | -1.0 | 399.0 | 397.5 | 20 | 2,347 |
| Apr | 400.6 | -1.0 | 403.1 | 401.0 | 1 | 2,300 |
| Jul | 403.8 | -1.0 | - | - | 9 | 42 |
| Total | | | | | 474 | 26,618 |

■ PALLADIUM NYMEX (100 Troy oz.; $/troy oz.)

| | | | | | | |
|---|---|---|---|---|---|---|
| Sep | 135.40 | -0.35 | 136.25 | 135.00 | 454 | 6,680 |
| Dec | 136.40 | -0.35 | 136.75 | 136.75 | 2 | 970 |
| Mar | 137.40 | -0.35 | - | - | - | 12 |
| Jun | 138.45 | -0.35 | - | - | - | 106 |
| Total | | | | | 456 | 7,768 |

■ SILVER COMEX (5,000 Troy oz.; Cents/troy oz.)

| | | | | | | |
|---|---|---|---|---|---|---|
| Jul | 508.0 | +1.6 | 513.0 | 507.0 | 273 | 925 |
| Aug | 510.1 | +1.8 | - | - | 1 | 2 |
| Sep | 513.0 | +1.8 | 517.5 | 510.0 | 8,291 | 58,109 |
| Dec | 521.1 | +1.9 | 526.0 | 519.5 | 911 | 21,718 |
| Mar | 529.3 | +2.0 | 531.0 | 528.5 | 384 | 6,397 |
| May | 534.6 | +2.0 | - | - | 108 | 5,500 |
| Total | | | | | 9,911 | 99,246 |

### ENERGY

■ CRUDE OIL NYMEX (1,000 barrels, $/barrel)

| | Latest price | Day's change | High | Low | Vol | Open int |
|---|---|---|---|---|---|---|
| Aug | 21.25 | +0.12 | 21.28 | 20.96 | 28,826 | 90,917 |
| Sep | 20.40 | +0.12 | 20.42 | 20.15 | 13,721 | 45,966 |
| Oct | 19.73 | +0.14 | 19.73 | 19.56 | 4,832 | 33,830 |
| Nov | 19.23 | +0.11 | 19.23 | 19.10 | 1,691 | 24,261 |
| Dec | 18.90 | +0.11 | 18.90 | 18.75 | 5,577 | 31,015 |
| Jan | 18.61 | +0.08 | 18.61 | 18.55 | 1,486 | 22,297 |
| Total | | | | | 66,676 | 372,519 |

■ CRUDE OIL IPE ($/barrel)

| | Latest price | Day's change | High | Low | Vol | Open int |
|---|---|---|---|---|---|---|
| Aug | 19.23 | +0.18 | 19.23 | 18.94 | 11,005 | 43,060 |
| Sep | 18.70 | +0.17 | 18.70 | 18.47 | 9,580 | 53,718 |
| Oct | 18.30 | +0.15 | 18.30 | 18.08 | 1,641 | 22,485 |
| Nov | 17.91 | +0.10 | 17.95 | 17.75 | 393 | 6,884 |
| Dec | 17.61 | +0.08 | 17.62 | 17.51 | 988 | 12,951 |
| Jan | 17.36 | +0.06 | 17.38 | 17.30 | 479 | 11,285 |
| Total | | | | | na | na |

■ HEATING OIL NYMEX (42,000 US galls.; c/US galls.)

| | Latest price | Day's change | High | Low | Vol | Open int |
|---|---|---|---|---|---|---|
| Aug | 54.75 | +0.47 | 54.95 | 54.20 | 10,055 | 33,659 |
| Sep | 54.70 | +0.12 | 55.10 | 54.75 | 3,794 | 11,590 |
| Oct | 55.20 | +0.27 | 55.30 | 55.05 | 901 | 6,106 |
| Nov | 55.55 | +0.27 | 55.60 | 55.50 | 577 | 7,042 |
| Dec | 55.85 | +0.27 | 56.00 | 55.70 | 2,527 | 18,963 |
| Jan | 55.85 | +0.17 | 55.90 | 55.75 | 480 | 8,296 |
| Total | | | | | 19,784 | 99,836 |

■ GAS OIL IPE ($/tonne)

| | Sett price | Day's change | High | Low | Vol | Open int |
|---|---|---|---|---|---|---|
| Jul | 172.25 | -0.75 | 174.00 | 171.50 | 6,006 | 15,859 |
| Aug | 169.25 | -0.50 | 170.00 | 168.00 | 4,999 | 15,561 |
| Sep | 168.50 | -0.25 | 169.00 | 167.50 | 2,035 | 8,473 |
| Oct | 168.00 | -0.25 | 168.25 | 166.50 | 389 | 3,674 |
| Nov | 167.50 | -0.25 | 167.75 | 166.50 | 215 | 1,713 |
| Dec | 167.00 | -0.50 | 167.25 | 166.50 | 1,791 | 9,416 |
| Total | | | | | 17,082 | 60,572 |

■ NATURAL GAS NYMEX (10,000 mmBtu.; $/mmBtu.)

| | Latest price | Day's change | High | Low | Vol | Open int |
|---|---|---|---|---|---|---|
| Aug | 2.830 | +0.020 | 2.848 | 2.770 | 11,540 | 43,748 |
| Sep | 2.775 | +0.026 | 2.789 | 2.720 | 2,735 | 21,748 |
| Oct | 2.740 | +0.018 | 2.745 | 2.700 | 2,273 | 19,305 |
| Nov | 2.740 | +0.002 | 2.745 | 2.720 | 1,410 | 12,482 |
| Dec | 2.760 | -0.005 | 2.785 | 2.750 | 808 | 15,081 |
| Jan | 2.760 | - | 2.775 | 2.745 | 952 | 11,290 |
| Total | | | | | 21,098 | 161,944 |

■ UNLEADED GASOLINE
NYMEX (42,000 US galls.; c/US galls.)

| | Latest price | Day's change | High | Low | Vol | Open int |
|---|---|---|---|---|---|---|
| Aug | 61.80 | +0.91 | 62.00 | 60.70 | 10,847 | 27,482 |
| Sep | 60.45 | +0.63 | 60.70 | 59.70 | 2,588 | 9,583 |
| Oct | 57.80 | +0.23 | 57.80 | 57.70 | 556 | 3,533 |
| Nov | 55.80 | -0.12 | 55.80 | 55.80 | 174 | 1,878 |
| Dec | 55.00 | +0.23 | 55.00 | 54.80 | 391 | 1,575 |
| Jan | 54.20 | -0.07 | 54.20 | 54.20 | 201 | 788 |
| Total | | | | | 14,882 | 45,653 |

### GRAINS AND OIL SEEDS

■ WHEAT LCE (£ per tonne)

| | Sett price | Day's change | High | Low | Vol | Open int |
|---|---|---|---|---|---|---|
| Jul | 109.70 | -0.55 | 109.50 | 109.30 | 47 | 220 |
| Sep | 111.00 | -0.50 | 111.00 | 111.00 | 30 | 411 |
| Nov | 112.95 | -0.55 | 113.00 | 112.60 | 49 | 3,003 |
| Jan | 114.95 | -0.50 | 115.00 | 115.00 | 20 | 1,034 |
| Mar | 117.00 | -0.40 | 117.00 | 116.85 | 19 | 357 |
| May | 118.95 | -0.70 | 119.00 | 119.00 | 6 | 152 |
| Total | | | | | 171 | 5,183 |

■ WHEAT CBT (5,000bu min; cents/60lb bushel)

| | | | | | | |
|---|---|---|---|---|---|---|
| Jul | 476.25 | +4.5 | 476.50 | 469.00 | 3,027 | 5,900 |
| Sep | 479.25 | +3.75 | 483.00 | 472.00 | 6,448 | 32,745 |
| Dec | 489.25 | +5.5 | 491.50 | 480.00 | 5,073 | 27,593 |
| Mar | 486.00 | +5.25 | 491.50 | 481.00 | 487 | 4,007 |
| May | 462.50 | +1.5 | 463.00 | 459.50 | 33 | 158 |
| Jul | 425.00 | +1 | 426.00 | 423.00 | 79 | 1,870 |
| Total | | | | | 15,147 | 72,398 |

■ MAIZE CBT (5,000 bu min; cents/56lb bushel)

| | | | | | | |
|---|---|---|---|---|---|---|
| Jul | 529.50 | +11 | 532.00 | 516.00 | 7,954 | 13,475 |
| Sep | 409.50 | +4 | 410.00 | 402.50 | 19,904 | 73,962 |
| Dec | 385.00 | +2 | 386.00 | 361.00 | 30,326 | 175,346 |
| Mar | 370.00 | +1.75 | 370.75 | 364.25 | 2,527 | 26,022 |
| May | 372.50 | +1.75 | 373.00 | 370.00 | 977 | 4,926 |
| Jul | 370.50 | +1.25 | 371.50 | 368.00 | 947 | 6,052 |
| Total | | | | | 63,083 | 305,535 |

■ BARLEY LCE (£ per tonne)

| | | | | | | |
|---|---|---|---|---|---|---|
| Sep | 104.00 | -0.25 | - | - | - | 98 |
| Nov | 106.15 | -0.30 | 106.25 | 105.75 | 28 | 767 |
| Jan | 108.25 | -0.40 | 108.25 | 108.10 | 17 | 169 |
| Mar | 110.00 | +0.10 | - | - | - | 46 |
| May | 112.25 | - | - | - | - | 7 |
| Total | | | | | 45 | 1,077 |

■ SOYABEANS CBT (5,000bu min; cents/60lb bushel)

| | | | | | | |
|---|---|---|---|---|---|---|
| Jul | 779.25 | +5.75 | 781.00 | 770.00 | 4,710 | 7,645 |
| Aug | 777.25 | +6 | 778.50 | 768.00 | 8,026 | 30,213 |
| Sep | 758.00 | +2.5 | 761.50 | 750.50 | 1,475 | 11,255 |
| Nov | 745.50 | +2.5 | 748.50 | 738.00 | 21,880 | 102,091 |
| Jan | 752.75 | +2.5 | 755.00 | 748.00 | 298 | 7,943 |
| Mar | 758.50 | +1.5 | 761.00 | 754.00 | 208 | 4,394 |
| Total | | | | | 37,826 | 172,681 |

■ SOYABEAN OIL CBT (60,000lbs; cents/lb)

| | | | | | | |
|---|---|---|---|---|---|---|
| Jul | 25.08 | -0.08 | 25.20 | 24.94 | 7,363 | 4,220 |
| Aug | 25.18 | -0.12 | 25.30 | 25.06 | 9,478 | 22,015 |
| Sep | 25.37 | -0.15 | 25.49 | 25.27 | 2,008 | 12,173 |
| Oct | 25.55 | -0.12 | 25.69 | 25.45 | 457 | 7,124 |
| Dec | 25.91 | -0.1 | 26.05 | 25.75 | 3,850 | 26,407 |
| Jan | 26.00 | -0.13 | 26.12 | 25.84 | 216 | 2,613 |
| Total | | | | | 23,366 | 88,120 |

■ SOYABEAN MEAL CBT (100 tons; $/ton)

| | | | | | | |
|---|---|---|---|---|---|---|
| Jul | 244.0 | +2 | 244.0 | 241.0 | 4,457 | 10,863 |
| Aug | 242.3 | +2.2 | 242.8 | 239.2 | 6,161 | 22,403 |
| Sep | 240.7 | +2.3 | 241.3 | 237.6 | 1,718 | 10,320 |
| Oct | 238.5 | +1.7 | 237.2 | 234.0 | 299 | 5,816 |
| Dec | 235.1 | +1.2 | 235.9 | 233.2 | 3,753 | 25,205 |
| Jan | 235.2 | +1.1 | 235.9 | 233.0 | 19 | 2,908 |
| Total | | | | | 16,488 | 80,708 |

■ POTATOES LCE (£/tonne)

| | | | | | | |
|---|---|---|---|---|---|---|
| Nov | 85.0 | - | - | - | - | - |
| Mar | 110.0 | - | - | - | - | - |
| Apr | 119.8 | +0.5 | 124.0 | 120.0 | 118 | 1,261 |
| May | 131.8 | - | - | - | - | 3 |
| Jun | 162.5 | - | - | - | - | - |
| Total | | | | | 118 | 1,294 |

■ FREIGHT (BIFFEX) LCE ($10/index point)

| | | | | | | |
|---|---|---|---|---|---|---|
| Jul | 1137 | +3 | 1140 | 1135 | 204 | 1,947 |
| Aug | 1133 | +8 | 1135 | 1125 | 128 | 379 |
| Sep | 1175 | +7 | 1175 | 1165 | 25 | 40 |
| Oct | 1235 | +3 | 1245 | 1235 | 100 | 1,446 |
| Jan | 1257 | +1 | - | - | - | 268 |
| Apr | 1273 | - | - | - | - | 116 |
| Total | | | | | 457 | 4,216 |

| | Close | Prev |
|---|---|---|
| BFI | 1173 | 1178 |

FUTURES DATA
*All futures data supplied by CMS.*

**Nuts and Seeds**
Prices from Kenkko Group; US$ a tonne. Iranian pistachios 28/30 raw (in shell) naturally opened (round); 1995 crop 3,300 CFR/FOT MEP, steady. US almonds (shelled), tight availability for 1995 crop; New crop of 530m lb will be of average yield, with nonpareil variety under 50%; very little carryover from 1995 crop expected: 23/25 NPSSR AOL 5,975, shipment first half September, 5,775 shipment end-September/October; 18/20 5,806 shipment end-Sept/Oct – all FAS California. US walnuts LHP 20% – 1995 crop 5,600 FAS California; new crop 5,091 September/October shipment. Indian cashews raw: W-320, 6,000 spot Europe – firming slightly; from origin at 5,950 CFR India for second half of 1996. Turkish hazelnut kernels, 13/15 standard 1s, 1995 crop, 2,850 FOB MEP, up slightly; new crop at 2,600 FOB MEP – new crop estimated at 425,000 tonnes.

### SOFTS

■ COCOA LCE (£/tonne)

| | Sett price | Day's change | High | Low | Vol | Open int |
|---|---|---|---|---|---|---|
| Jul | 1039 | - | 1047 | 1037 | 54 | 2,267 |
| Sep | 1058 | - | 1069 | 1050 | 751 | 43,104 |
| Dec | 1044 | - | 1053 | 1043 | 698 | 42,513 |
| Mar | 1048 | - | 1054 | 1046 | 572 | 34,240 |
| May | 1057 | -1 | 1063 | 1057 | 159 | 20,144 |
| Jul | 1067 | - | 1070 | 1066 | 40 | 10,804 |
| Total | | | | | 2,329 | 198,648 |

■ COCOA CSCE (10 tonnes; $/tonnes)

| | | | | | | |
|---|---|---|---|---|---|---|
| Jul | 1384 | -7 | 1390 | 1378 | 18 | 204 |
| Sep | 1416 | -7 | 1437 | 1414 | 4,016 | 31,336 |
| Dec | 1445 | -5 | 1463 | 1444 | 4,697 | 15,883 |
| Mar | 1468 | -4 | 1485 | 1470 | 2,012 | 14,641 |
| May | 1482 | -3 | 1486 | 1482 | 1 | 8,675 |
| Jul | 1492 | -4 | 1492 | 1492 | 1 | 5,902 |
| Total | | | | | 12,236 | 81,868 |

■ COCOA (ICCO) (SDR's/tonne)

| | Price | Prev. day |
|---|---|---|
| Jul 2 | | |
| Daily | 1070.03 | 1058.61 |

■ COFFEE LCE ($/tonne)

| | | | | | | |
|---|---|---|---|---|---|---|
| Jul | 1690 | -12 | 1714 | 1667 | 541 | 2,411 |
| Sep | 1679 | +2 | 1690 | 1652 | 3,325 | 14,367 |
| Nov | 1646 | -6 | 1667 | 1630 | 877 | 4,533 |
| Jan | 1610 | -13 | 1634 | 1600 | 168 | 2,811 |
| Mar | 1568 | -15 | 1587 | 1564 | 144 | 1,123 |
| May | 1545 | -25 | 1580 | 1550 | 13 | 98 |
| Total | | | | | 5,078 | 25,357 |

■ COFFEE 'C' CSCE (37,500lbs; cents/lbs)

| | | | | | | |
|---|---|---|---|---|---|---|
| Jul | 124.15 | -0.85 | 125.10 | 123.50 | 285 | 1,091 |
| Sep | 116.50 | -1.35 | 118.25 | 116.20 | 5,425 | 14,512 |
| Dec | 112.05 | -1.75 | 113.90 | 111.75 | 815 | 4,853 |
| Mar | 109.55 | -1.95 | 111.75 | 109.20 | 188 | 1,768 |
| May | 109.55 | -1.20 | - | - | 1 | 400 |
| Jul | 109.40 | -0.85 | 110.05 | 110.05 | 4 | 141 |
| Total | | | | | 6,719 | 22,816 |

■ COFFEE (ICO) (US cents/pound)

| Jul 2 | | Prev. day |
|---|---|---|
| Comp. daily | 105.27 | 107.17 |
| 15 day average | 106.93 | 106.90 |

■ WHITE SUGAR LCE ($/tonne)

| | | | | | | |
|---|---|---|---|---|---|---|
| Aug | 382.8 | +1.3 | 383.0 | 380.0 | 1,454 | 7,579 |
| Oct | 351.6 | +0.2 | 352.0 | 351.0 | 284 | 8,321 |
| Dec | 338.8 | +1.2 | 339.0 | 338.0 | 31 | 3,825 |
| Mar | 333.5 | +1.3 | 333.5 | 332.5 | 182 | 4,231 |
| May | 331.0 | +0.6 | 331.0 | 331.0 | 1 | 2,197 |
| Aug | 328.8 | -0.1 | - | - | - | 775 |
| Total | | | | | 1,952 | 27,493 |

■ SUGAR '11' CSCE (112,000lbs; cents/lbs)

| | | | | | | |
|---|---|---|---|---|---|---|
| Oct | 11.39 | +0.01 | 11.41 | 11.28 | 4,481 | 69,820 |
| Mar | 11.07 | +0.02 | 11.09 | 10.86 | 4,540 | 34,632 |
| May | 10.80 | +0.02 | 10.80 | 10.74 | 889 | 13,686 |
| Jul | 10.55 | +0.03 | 10.56 | 10.51 | 848 | 11,554 |
| Oct | 10.33 | +0.03 | 10.33 | 10.33 | 57 | 5,012 |
| Mar | 10.19 | +0.03 | - | - | 6 | 531 |
| Total | | | | | 10,815 | 135,341 |

■ COTTON NYCE (50,000lbs; cents/lbs)

| | | | | | | |
|---|---|---|---|---|---|---|
| Jul | 70.05 | +0.05 | 70.20 | 69.50 | 73 | 492 |
| Oct | 72.07 | -0.30 | 72.30 | 71.40 | 1,052 | 7,928 |
| Dec | 72.84 | -0.28 | 73.39 | 72.15 | 2,828 | 33,084 |
| Mar | 74.15 | -0.28 | 74.43 | 73.70 | 495 | 6,834 |
| May | 75.00 | -0.20 | 75.15 | 74.50 | 244 | 5,042 |
| Jul | 75.85 | -0.22 | 75.86 | 75.30 | 12 | 3,553 |
| Total | | | | | 4,769 | 69,557 |

■ ORANGE JUICE NYCE (15,000lbs; cents/lbs)

| | | | | | | |
|---|---|---|---|---|---|---|
| Jul | 125.50 | +0.25 | 128.20 | 125.50 | 546 | 1,287 |
| Sep | 122.45 | +0.05 | 124.25 | 122.05 | 1,425 | 10,785 |
| Nov | 119.00 | +0.20 | 120.25 | 118.90 | 253 | 2,375 |
| Jan | 117.00 | -0.20 | 118.00 | 117.00 | 42 | 3,768 |
| Mar | 118.80 | +0.10 | 119.40 | 118.80 | 2 | 308 |
| May | 120.10 | +0.10 | 120.25 | 120.25 | 9 | 198 |
| Total | | | | | 2,289 | 18,968 |

**VOLUME DATA**
Open interest and Volume data shown for contracts traded on COMEX, NYMEX, CBT, NYCE, CME, CSCE and IPE Crude Oil are one day in arrears. Volume & Open interest totals are for all traded months.

### INDICES

■ REUTERS (Base: 18/9/31=100)

| Jul 3 | Jul 2 | month ago | year ago |
|---|---|---|---|
| 2002.4 | 2003.8 | 2095.2 | 2271.7 |

■ CRB Futures (Base: 1967=100)

| Jul 2 | Jul 1 | month ago | year ago |
|---|---|---|---|
| 246.66 | 249.61 | na | na |

■ GSCI Spot (Base: 1970=100)

| Jul 2 | Jul 1 | month ago | year ago |
|---|---|---|---|
| 206.36 | 207.52 | 203.52 | 174.23 |

### MEAT AND LIVESTOCK

■ LIVE CATTLE CME (40,000lbs; cents/lbs)

| | Sett Price | Day's change | High | Low | Vol | Open int |
|---|---|---|---|---|---|---|
| Aug | 66.975 | +0.675 | 67.200 | 66.550 | 5,988 | 36,447 |
| Oct | 68.750 | +0.550 | 68.925 | 68.350 | 3,247 | 25,800 |
| Dec | 66.525 | +0.625 | 66.600 | 66.025 | 2,324 | 11,873 |
| Feb | 64.850 | +0.525 | 64.875 | 64.350 | 845 | 12,171 |
| Apr | 66.850 | +0.275 | 66.875 | 66.550 | 145 | 4,026 |
| Jun | 65.775 | +0.350 | 65.800 | 65.475 | 61 | 1,225 |
| Total | | | | | 12,862 | 92,861 |

■ LIVE HOGS CME (40,000lbs; cents/lbs)

| | | | | | | |
|---|---|---|---|---|---|---|
| Jul | 58.050 | +0.725 | 58.100 | 57.325 | 3,426 | 5,789 |
| Aug | 55.250 | +0.750 | 55.300 | 54.350 | 2,713 | 11,862 |
| Oct | 52.175 | +0.850 | 52.325 | 51.325 | 982 | 6,631 |
| Dec | 54.325 | +0.550 | 54.550 | 53.775 | 690 | 8,889 |
| Feb | 76.850 | +0.150 | 76.975 | 76.200 | 331 | 1,927 |
| Apr | 74.700 | +0.400 | 74.750 | 74.000 | 105 | 561 |
| Total | | | | | 8,389 | 34,549 |

■ PORK BELLIES CME (40,000lbs; cents/lbs)

| | | | | | | |
|---|---|---|---|---|---|---|
| Jul | 79.125 | +2.000 | 79.125 | 78.525 | 69 | 2,470 |
| Aug | 76.300 | +2.000 | 76.300 | 75.400 | 111 | 3,414 |
| Feb | 81.125 | +2.000 | 81.125 | 79.600 | 30 | 968 |
| Mar | 81.650 | +0.225 | 81.725 | 79.600 | 16 | 50 |
| May | 82.775 | +0.475 | 82.775 | 81.000 | 15 | 58 |
| Total | | | | | 242 | 6,959 |

### LONDON TRADED OPTIONS

Strike price $ tonne — Calls — — Puts —

| | Calls | | Puts | |
|---|---|---|---|---|
| ■ ALUMINIUM (99.7%) LME | Sep | Dec | Sep | Dec |
| 1400 | 112 | 153 | 9 | 20 |
| 1500 | 45 | 88 | 41 | 52 |
| 1600 | 12 | 44 | 107 | 108 |
| ■ COPPER (Grade A) LME | Sep | Dec | Sep | Dec |
| 1800 | 190 | 201 | 71 | 105 |
| 1900 | 135 | 152 | 115 | 153 |
| 2000 | 92 | 112 | 171 | 211 |
| ■ COFFEE LCE | Sep | Nov | Sep | Nov |
| 1650 | 142 | 139 | 63 | 143 |
| 1700 | 114 | 120 | 85 | 174 |
| 1750 | 90 | 103 | 99 | 207 |
| ■ COCOA LCE | Sep | Dec | Sep | Dec |
| 1000 | 65 | 95 | 32 | 51 |
| 1050 | 52 | 82 | 44 | 63 |
| 1100 | 40 | 70 | 57 | 76 |
| ■ BRENT CRUDE IPE | Aug | Sep | Aug | Sep |
| 1850 | 69 | - | - | 44 |
| 1900 | 31 | 42 | 22 | - |
| 1950 | 18 | - | - | - |

### LONDON SPOT MARKETS

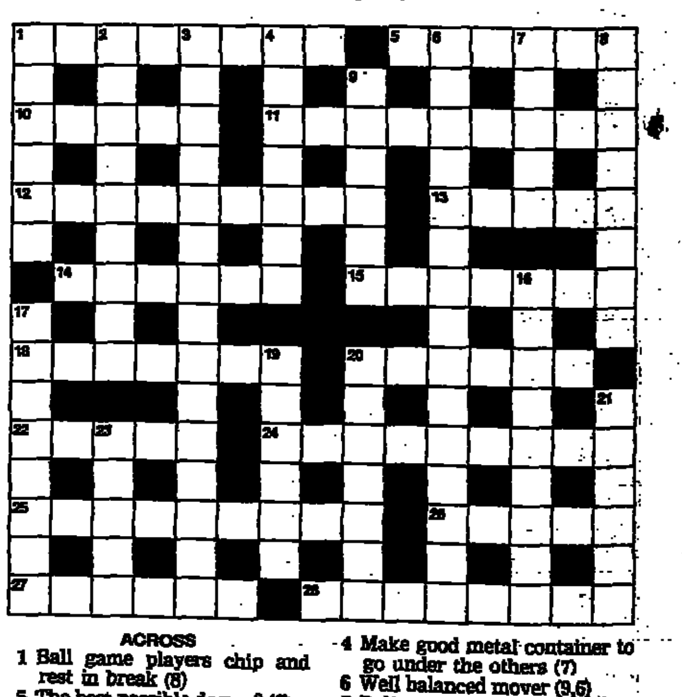
| ■ CRUDE OIL FOB (per barrel) | | +or- |
|---|---|---|
| Dubai | $17.68-7.79 | +0.07 |
| Brent Blend (dated) | $19.46-9.52 | +0.005 |
| Brent Blend (Aug) | $19.25-9.31 | +0.03 |
| W.T.I. | $21.34-1.36x | +0.045 |
| ■ OIL PRODUCTS NWE prompt delivery CIF (tonne) | | |
| Premium Gasoline | $203-205 | +5 |
| Gas Oil | $175-177 | -0.5 |
| Heavy Fuel Oil | $87-89 | |
| Naphtha | $182-184 | +2 |
| Jet fuel | $192-196 | -3.5 |
| Diesel | $178-180 | -0.5 |
| ■ NATURAL GAS (Pence/therm) | | |
| Bacton (Aug) | 12.80-13.20 | +0.25 |
| *Petroleum Argus. Tel. London (0171) 359 8792* | | |
| ■ OTHER | | |
| Gold (per troy oz)♣ | $382.20 | +0.45 |
| Silver (per troy oz)♣ | 513.50c | +5.00 |
| Platinum (per troy oz.) | $392.50 | +1.10 |
| Palladium (per troy oz.) | $133.75 | +0.50 |
| Copper | 94.0c | -1.0 |
| Lead (US prod.) | 45.00c | |
| Tin (Kuala Lumpur) | 15.50r | +0.09 |
| Tin (New York) | 297.50 | +3.00 |
| Cattle (live weight) | 99.87p | +0.73* |
| Sheep (live weight) | 110.71p | -3.25* |
| Pigs (live weight)† | 119.84p | +2.21* |
| Lon. day sugar (raw) | $311.00 | +1.30 |
| Lon. day sugar (wte) | $390.00 | +1.00 |
| Barley (Eng. feed) | Unq | |
| Maize (US No3 Yellow) | Unq | |
| Wheat (US Dark North) | Unq | |
| Rubber (Aug)♥ | 93.75p | -1.75 |
| Rubber (Sep)♥ | 93.75p | -1.75 |
| Rubber (KL RSS No1) | 349.00m | -1.00 |
| Coconut Oil (Phil)§ | $825.0w | -5.0 |
| Palm Oil (Malay.)§ | $480.0z | -12.5 |
| Copra (Phil)§ | $525.0w | -13.0 |
| Soyabeans (US) | 214.0 | |
| Cotton Outlook 'A' index | 79.65c | |
| Wooltops (64s Super) | 434p | |

£ per tonne unless otherwise stated. p pence/kg. c cents/lb. r ringgit/kg. m Malaysian cents/kg. z Aug. v Jul/Aug. x Aug. ¶ London Physical. § CIF Rotterdam. ♣ Bullion market close. * Change on week. †Based on 1,544 head of pigs sold.

**JOTTER PAD**

## CROSSWORD

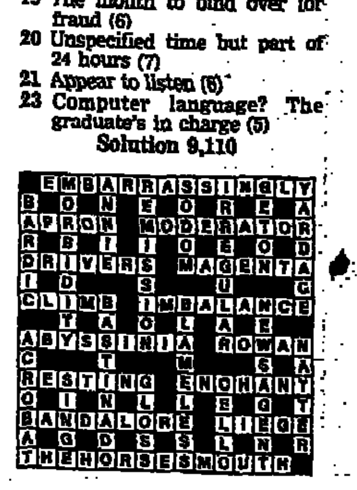
No.9,111 Set by QUARK



**ACROSS**
1 Ball game players chip and rest in break (8)
5 The best possible degree? (6)
10 Newly arrived offspring (5)
11 Suspend rugby player for inappropriate footwear? (9)
12 Residence provided by the bank? (9)
13 The cheers for a Greek character (5)
14 The American patriot to regard with respect (6)
15 Badly executed chorale produces complaint (7)
18 Surprise thief initially breaking into a safe (7)
20 Part of the instep only used to crush (4,2)
22 Horse artist could be charmed by music and movement (5)
24 Happen to change tack (4,5)
25 Examined if I entered and gave evidence (9)
26 Instrument for attack? It could spread (5)
27 Stress cash is required to go to account (5)
28 The dryad could be combined with water (8)

**DOWN**
1 Disguised spy's about; he's following, mind (6)
2 The vehicle you loaned we hear, is violent (9)
3 Raised culture? (6,9)
4 Make good metal container to go under the others (7)
6 Well balanced mover (9,6)
7 Deliver a speech round class (5)
8 Make a deduction for food off the premises (8)
9 Nervous reaction to a short biography of life (6)
16 Financial expert's income's to change? (9)
17 American state reduced army in India (8)
19 The month to bind over for fraud (6)
20 Unspecified time but part of 24 hours (7)
21 Appear to listen (6)
23 Computer language? The graduate's in charge (5)

Solution 9,110



# FT MANAGED FUNDS SERVICE



● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

# OFFSHORE AND OVERSEAS

## BERMUDA (SIB RECOGNISED)

### Fidelity Currency Funds Ltd
Pembroke Hall, Pembroke, Bermuda

| | Init Charge | Selling Price | Buying Price | + or - | Yield Gr's |
|---|---|---|---|---|---|
| A$ Accum | | A$10.610 | | +0.010 | 6.40 |
| A Sch Accum | | Sch247.40 | | +0.04 | 2.10 |
| C$ Accum | | C$18.626 | | +0.008 | 5.70 |
| DM Accum | | DM39.085 | | +0.007 | 2.10 |
| DFl Accum | | Dfl31.808 | | +0.004 | 1.60 |
| ECU Accum | | Ecu13.371 | | +0.008 | 3.40 |
| FFr Accum | | FFr65.639 | | +0.014 | 2.70 |
| HK$ Accum | | HK$119.81 | | +0.04 | 4.70 |
| Lira Accum | | L23088 | | +15 | 8.30 |
| NZ$ Accum | | NZ$30.622 | | +0.028 | 8.70 |
| NKr Accum | | NKr111.43 | | +0.05 | 3.30 |
| S$ Accum | | S$25.993 | | +0.003 | 1.80 |
| SPta Accum | | Pta2697.2 | | +1.4 | 6.40 |
| £ Accum | | £12.964 | | +0.005 | 4.80 |
| SKr Accum | | SKr119.67 | | +0.05 | 4.50 |
| SFr Accum | | SFr29.314 | | +0.002 | 1.00 |
| US$ Accum | | $23.220 | | +0.008 | 4.40 |
| Yen Accum | | Y2060.6 | | — | 0.10 |

Prices for dealing July 2

### Jupiter Tyndall (Bermuda) Ltd

### Lloyds Intl Money Market Fund Ltd
Sarnia Hse, Le Truchot, St Peter Port 01481 724983
Lloyds Bank Fund Managers (Guernsey) Ltd

| | Init Charge | Selling Price | Buying Price | + or - | Yield Gr's |
|---|---|---|---|---|---|
| Australian Dollar ◆ | | A$95.141 | | +0.016 | 8.647 |
| Canadian Dollar ◆ | | C$20.342 | | +0.008 | 3.800 |
| Deutschemark ◆ | | DM89.043 | | +0.003 | 2.409 |
| Dutch Guilders ◆ | | Dfl95.865 | | +0.003 | 1.839 |
| ECU's ◆ | | Ecu58.618 | | +0.008 | 3.540 |
| French Francs ◆ | | FFr198.788 | | +0.019 | 2.918 |
| Italian Lira ◆ | 0 | L25975.360 | | +5.748 | 8.527 |
| Japanese Yen ◆ | | Y3398.835 | | +0.009 | 0.067 |
| New Zealand Dollar ◆ | | NZ$93.822 | | +0.020 | 8.610 |
| Norwegian Kroner ◆ | 0 | NKr101.082 | | +0.018 | 3.685 |
| Portuguese Escudos ◆ | | Esc738.228 | | +0.530 | 8.888 |
| Spanish Pesetas ◆ | | Pta8683.829 | | +0.829 | 6.549 |
| Sterling Class ◆ | | £30.580 | | +0.004 | 4.989 |
| Swedish Kronor ◆ | 0 | SKr108.185 | | +0.040 | 5.234 |
| Swiss Francs ◆ | | SFr80.840 | | +0.008 | 1.408 |
| US Dollar Class ◆ | | $41.563 | | +0.008 | 4.818 |
| Managed Sterling | | £19.201 | | +0.010 | 7.636 |
| Managed US$ | | $25.388 | | +0.023 | 7.087 |

Dealing daily

### M & G (Guernsey) Ltd
Westbourne, The Grange, St Peter Port 01481 722083

| | Init Charge | Selling Price | Buying Price | + or - | Yield Gr's |
|---|---|---|---|---|---|
| Inland Global Fd | 0 | 1882.6 | 2004.6 | +8.8 | 0.88 |
| Inland Gold | 0 | 4487.2 | 4758.4 | +35.1 | 0.08 |
| (Accum. Units) | 0 | 8546.6 | 9059.6 | +66.9 | 0.09 |
| Inland UK Fd | 0 | 1029.8 | 1091.4 | +0.7 | 3.41 |
| (Accum Units) | 0 | 2479.8 | 2629.6 | -0.2 | 3.41 |

### Prudential Fund Managers (Guernsey) Ltd
Po Box 61, St Peter Port Guernsey 01481 707000
Prudential Money Funds Ltd

| | Init Charge | Selling Price | Buying Price | + or - | Yield Gr's |
|---|---|---|---|---|---|
| Managed Sterling | | 157.1 | 157.2 | -0.2 | 4.08 |
| Managed Dollar | 5 | $14.30 | 14.31 | +0.01 | 3.84 |
| Dollar Deposit | | $10.06 | 10.07 | — | 3.84 |

### Rothschild Asset Management (CI) Ltd
PO Box 242, St Peter Port, Guernsey 01481 7197428

| | Init Charge | Selling Price | Buying Price | + or - | Yield Gr's |
|---|---|---|---|---|---|
| FAB £ Bond | 3½ | £27.29 | 27.80 | +0.01 | 5.58 |
| FAB US$ Bond | 3½ | $31.87 | 33.04 | -0.05 | 5.60 |
| FAB £ Global | 3½ | £17.55 | 18.14 | -0.04 | 5.70 |

## BERMUDA (REGULATED)(**)

## GUERNSEY (SIB RECOGNISED)

## GUERNSEY (REGULATED)(**)

## IRELAND (SIB RECOGNISED)

## IRELAND (REGULATED)(**)

### Murray Johnstone (Dublin) Ltd
Europa House, Harcourt St, Dublin 2 3531 407 2000
Murray Global Accumulation Fund Plc

| | Init Charge | Selling Price | Buying Price | + or - | Yield Gr's |
|---|---|---|---|---|---|
| Murray Financials Bond | 2 | 102.08 | | +0.06 | 5.46 |

### Odey Asset Management Ltd
80 Harcourt Street, Dublin 2 00 3531 790 2400

| | Init Charge | Selling Price | Buying Price | + or - | Yield Gr's |
|---|---|---|---|---|---|
| Odey European Gth Inc | | DM161.32 | | — | - |
| Odey European Gth Acc | | DM161.92 | | — | - |
| Odey European Gth Inc | | £67.62 | | — | - |
| Odey European Gth Acc | | £68.18 | | — | - |

### Baring Mutual (Ireland) Ltd

| | Selling Price | Buying Price | + or - | Yield Gross |
|---|---|---|---|---|
| Umbrella Fixed Inc | $12.43 | 12.87 | — | 5.64 |
| Greater America Fund '92 | $98.88 | | — | 0.00 |
| Pacific Emerging 94 A | $98.30 | | — | 0.00 |
| Pacific Emerging 94 B | $95.68 | | — | 0.00 |
| Latin America | $98.09 | | +0.07 | 0.00 |

### Berkshire KITC Growth Fund Plc

| | Selling Price | Buying Price | + or - | Yield Gross |
|---|---|---|---|---|
| NAV | $8.10 | | -1.91 | - |

### Berkshire Korea Fund Plc

| | Selling Price | Buying Price | + or - | Yield Gross |
|---|---|---|---|---|
| NAV | $5.57 | | -0.20 | - |



### Old Mutual International Fd Mngrs Ltd (u)
8/11 Lower Mount Street, Dublin 2, Ireland 00 3531 6621555

| | Init Charge | Selling Price | Buying Price | + or - | Yield Gr's |
|---|---|---|---|---|---|
| OMI Galileo Euro Sm Cos | | $1.364 | | +0.018 | 0.00 |
| OMI Galileo Em Asia Eq | | $0.954 | | +0.005 | 0.00 |
| OMI Galileo Emer Mkt Bd | | $1.0863d | | +0.004 | 8.36 |
| OMI Galileo Emer Mkt Eq | | $1.103 | | +0.004 | 0.00 |
| OMI Galileo Glbl Mgd | | $1.3380d | | -0.001 | 0.00 |
| OMI Galileo Glbl Spec Sit | | $1.3326 | | | 0.43 |
| OMI Galileo Glbl Fixed Int | | $1.0346d | | -0.002 | 5.87 |
| OMI Galileo Hong Kong Struct | | $0.9908 | | -0.002 | 0.00 |
| OMI Galileo Sth African Eq | 5 | $0.895 | | +0.001 | 0.00 |
| OMI Galileo US Dollar Bd | | $0.9340d | | -0.002 | 5.22 |
| OMIFM UK Gilt Trust | | £0.9814d | | -0.002 | 6.41 |

### Bordier Invest (Ireland) Ltd

| | Selling Price | Buying Price | + or - | Yield Gross |
|---|---|---|---|---|
| Inmed Korea Fd NAV Jun 28 | $82.19 | | — | - |

### CFP Interest Rate Arbitrage Fund Plc

| | Selling Price | Buying Price | + or - | Yield Gross |
|---|---|---|---|---|
| NAV | $10.46 | | — | 0.00 |

### Calpine Fund

| | Selling Price | Buying Price | + or - | Yield Gross |
|---|---|---|---|---|
| NAV | $104.85 | | (z) | - |

### Capital Vision Fund Plc

| | Selling Price | Buying Price | + or - | Yield Gross |
|---|---|---|---|---|
| NAV | $7.16 | | -1.75 | - |

### Chemical Ireland Fund Administrators Ltd

## ISLE OF MAN (SIB RECOGNISED)

## ISLE OF MAN (REGULATED)(**)

## JERSEY (SIB RECOGNISED)

## JERSEY (REGULATED)(**)

Offshore Funds and Insurances

# FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

**The Portugal Fund Limited**

Lloyds Bank International (Jersey) Limited

**Royal Bk of Scotland Fd Mngrs (Jersey) Ltd**

**E.T. Investment Management Ltd**

**Eigistan Global SICAV (z)**

**EquiFund–Wright National Eqty Fd (z)**

**Manulife Regent Global Fund (u) (z)**

**Mercury Asset Management S.A.**

## LUXEMBOURG (SIB RECOGNISED)

## LUXEMBOURG (REGULATED)(**)

**Aetna International Umbrella Fund (z)**

**Credis Investment Funds - Contd.**

**Merrill Lynch Asset Management - Contd.**

**Svecia Securities**

**Swiss Bank Corporation**

**CMI Ins Co Ltd/Clerical Med Gen Life Assce**

## OFFSHORE INSURANCES

# FT MANAGED FUNDS SERVICE

Offshore Insurances and Other Funds

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

## OTHER OFFSHORE FUNDS

## LONDON SHARE SERVICE

### ALCOHOLIC BEVERAGES
[illegible]

### BANKS, MERCHANT
[illegible]

### BANKS, RETAIL
[illegible]

### BREWERIES, PUBS & REST
[illegible]

### BUILDING & CONSTRUCTION
[illegible]

### BUILDING MATS. & MERCHANTS
[illegible]

### CHEMICALS
[illegible]

### CHEMICALS - Cont.
[illegible]

### DISTRIBUTORS
[illegible]

### DIVERSIFIED INDUSTRIALS
[illegible]

### ELECTRICITY
[illegible]

### ELECTRONIC & ELECTRICAL EQPT
[illegible]

### ELECTRONIC & ELECTRICAL EQPT - Cont.
[illegible]

### ENGINEERING
[illegible]



### ENGINEERING - Cont.
[illegible]

### ENGINEERING, VEHICLES
[illegible]

### EXTRACTIVE INDUSTRIES
[illegible]

### EXTRACTIVE INDUSTRIES - Cont.
[illegible]

### FOOD PRODUCERS
[illegible]

### FOOD PRODUCERS - Cont.
[illegible]

### GAS DISTRIBUTION
[illegible]

### HEALTH CARE
[illegible]

### HOUSEHOLD GOODS
[illegible]

### INSURANCE
[illegible]

### INVESTMENT TRUSTS
[illegible]

### INVESTMENT TRUSTS - Cont.
[illegible]

### INV TRUSTS SPLIT CAPITAL
[illegible]

هكذا من الأصل

# LONDON SHARE SERVICE

## INV TRUSTS SPLIT CAPITAL - Cont.

## LEISURE & HOTELS - Cont.

## OTHER FINANCIAL - Cont.

## PROPERTY - Cont.

## SUPPORT SERVICES - Cont.

## AIM - Cont.

## PAPER, PACKAGING & PRINTING

## RETAILERS, FOOD

## TELECOMMUNICATIONS

## LIFE ASSURANCE

## TEXTILES & APPAREL

## AMERICANS

## MEDIA

## RETAILERS, GENERAL

## PHARMACEUTICALS

## TOBACCO

## TRANSPORT

## CANADIANS

## OTHER INVESTMENT TRUSTS

## SOUTH AFRICANS

| | Notes | Price | + or - | 52 week high | 52 week low | Mkt Cap£m | Yld Gr's | P/E |
|---|---|---|---|---|---|---|---|---|
| Anglo Am Ind | | £28½ | — | £34½ | £28½ | 1,904 | 2.8 | ϕ |
| Barlow | $† | [illegible] | [illegible] | [illegible] | [illegible] | 1,355 | 2.0 | – |
| Gold Flds Prop R | | 124xd | — | 179 | 124 | 12.7 | 7.2 | 9.3 |
| MR Props. | | 75 | — | 85 | 75 | 3.01 | 12.8 | – |
| SASOL | ♥ | 699 | -9 | 710 | 475 | 3,917 | 1.7 | – |
| SA Brews | | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | 2.0 | ϕ |
| Standard Bank | □ | [illegible] | [illegible] | [illegible] | [illegible] | 2,985 | 1.5 | 20.5 |
| Tiger Oats | † | [illegible] | — | 1270 | 805 | 1,361 | 1.9 | 17.8 |
| Tongaat-Hulett | | 523xd | — | 1247 | 710 | 770.1 | 2.3 | ϕ |



## OIL EXPLORATION & PRODUCTION

## PROPERTY

## RETAILERS, GENERAL - Cont.

## INVESTMENT COMPANIES

## WATER

## SUPPORT SERVICES

## AIM

## OIL, INTEGRATED

## OTHER FINANCIAL

## LEISURE & HOTELS

## GUIDE TO LONDON SHARE SERVICE

Prices for the London Share Service delivered by FT Extel, a member of the Financial Times Group.

Company classifications are based on those used for the FT-SE Actuaries Share Indices.

Closing mid-prices are shown in pence unless otherwise stated. Highs and lows are based on intra-day mid-prices over a rolling 52 week period.

Where stocks are denominated in currencies other than sterling, this is indicated after the name.

Symbols referring to dividend status appear in the notes column daily as a guide to yields and P/E ratios. Dividends and Dividend covers are published on Monday.

Market capitalisation shown is calculated separately for each line of stock quoted.

Earnings used in calculations are based on IIMR 'Headline Earnings' formats.

Price/earnings ratios are based on latest annual reports and accounts and, where possible, are updated on interim figures.

Yields are based on mid-prices, are gross, adjusted for a dividend tax credit of 20 per cent and allow for value of declared distribution and rights.

Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pm -) to the current closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs.

- □ Indicates the most actively traded stocks. This includes UK stocks where transactions and prices are published continuously through the Stock Exchange Automated Quotation system (SEAQ) and non-UK stocks through the SEAQ International system.
- ∗ Highs and lows marked thus have been adjusted to allow for capital changes
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- ϕ Figures or report awaited
- ♥ Rule 2.1(a)(iv) Overseas incorporated companies listed on an approved exchange.
- ♣ Free annual/interim report available, see details below.
- ⚲ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- ‡‡ Rule 4.2(a) Irish incorporated non-listed companies.
- # Price at time of suspension
- ¶ Indicated dividend yield after pending scrip and/or rights issue.
- ♦ Merger bid or reorganisation in progress
- § Forecast dividend yield; p/e based on earnings updated by latest interim statement.
- ♠ Unregulated collective investment scheme.

a Yield based on annualised dividend
b Figures based on prospectus or other official estimates.
g Assumed dividend yield after rights issue.
h Assumed dividend yield after scrip issue.
n Rights issue pending
q Earnings based on preliminary figures.
s Dividend yield excludes a special payment.
t Indicated dividend yield, p/e ratio based on latest annual earnings.
u Forecast, or estimated annualised dividend yield, p/e based on previous year's earnings
z Dividend yield includes a special payment
F Yield based on prospectus or other official estimates for 1996-97.
G Assumed yield after pending scrip and/or rights issue.
H Yield based on prospectus or other official estimates for 1995.
K Yield based on prospectus or other official estimates for 1996
L Estimated annualised yield, p/e based on latest annual earnings.
M Yield based on prospectus or other official estimates for 1995-96.
N Dividend is paid in whole or part as a
FID (Foreign Income Dividend)
R Forecast annualised yield, p/e based on prospectus or other official estimates.
W Pro forma figures.
Z Dividend yield to date.

Abbreviations:
xd ex dividend;
xc ex scrip issue;
xr ex rights;
xa ex all;
xp ex capital distribution.

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1250 a year for each security shown, subject to the Editor's discretion

### ♣ FT Free Annual Reports Service

You can obtain the current annual/interim report of any company annotated with ♣. Please quote the *code FT5215. Ring 0181 770 0770 (open 24 hours* including weekends) or Fax 0181 770 3822. Reports will be sent the next working day, subject to availability.

### FT Company Focus

Comprehensive 10-14 page report available on this company, containing key FT stories from the last year, latest survey of City profit forecasts and investment recommendations, 5 year financial and share price performance review, balance sheet and profit and loss data, plus recent Stock Exchange announcements for £6.45.

To order, call 0121 200 4678.

Reports published by ShareFinder Ltd.

### FT Cityline

*Up-to-the-second share prices are available by* telephone from the FT Cityline service. See Monday's share price pages for details.

An international service is available for callers outside the UK, annual subscription £250 stg.

Call 0171 873 4378 for more information on FT Cityline.

For readers phoning from outside UK, please dial *+44 in place of the first 0.*

The share prices printed on these pages are also available on the Internet at www.FT.com.

# LONDON STOCK EXCHANGE

MARKET REPORT

## Stocks decline amid interest rate uncertainties

By Steve Thompson, UK Stock Market Editor

Share prices in London could make no headway yesterday amid the uncertainty over the direction of UK and US interest rates and following the two policy-making meetings in London and Washington.

Mr Kenneth Clarke, the chancellor of the exchequer, met Mr Eddie George, governor of the Bank of England, while the Federal Reserve's Open Market Committee was ending its two-day meeting.

With no shifts in interest rates apparent during the trading session, but the threat of a US rate rise always in the background, share prices struggled throughout the day, eventually closing just off the day's lows.

Once again turnover in equities was disappointing in spite of being boosted by a handful of special situations, notably the share buyback by RJB Mining, and some technical activity in National Power.

At the close the FT-SE 100 index was 11.6 lower at 3,714.1. The second-tier stocks fared no better, with the FT-SE Mid 250 index finally 9.8 off at 4,366.2.

The recent narrow trading trends in gilt-edged securities continued yesterday, with losses restricted to a few ticks, mirroring the slightly softer tone of US Treasuries.

Wall Street, held back by the bond market, drifted easier at the outset and gave no support to European equities. It is closed today for Independence Day.

There were, however, plenty of good performances from a number of individual stocks, the best of which was GEC, the electronics giant, which delivered top of the range figures.

The big lenders among the high street banks maintained their recent outperformance, with Abbey National and Lloyds TSB both posting useful gains.

Composite insurers, on the other hand, were damaged by a press report highlighting the downward pressure on insurance premiums.

The bid buzz that gave a late push to East Midland Electricity on Tuesday drove the shares even further ahead yesterday, with the market speculating that one of the big US utilities was about to launch a takeover offer for the group.

Much of the afternoon was taken up in discussing the latest Extel rankings of stockbrokers and analysts, which saw NatWest Securities take top ranking in research.

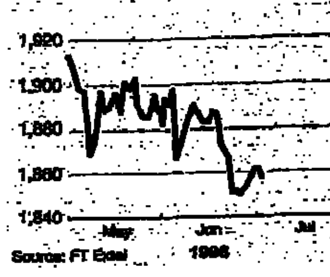
Merrill Lynch consolidated its pre-eminent position in market-making, followed by NatWest Securities and Kleinwort Benson, which took joint second place.

The continuing poor performance of the Footsie future – it closed at a discount to the cash market and to fair value – was viewed with dismay by senior dealers, one of whom said: "The market is suffering from a double dose of no interest, with only one way to go." Another expected a "gradual correction".

Turnover in equities at 6pm totalled 691.4m shares. Customer business on Tuesday was worth a hefty £2.04bn.

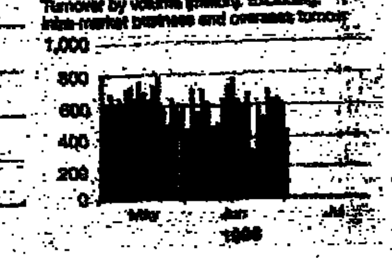
There was big activity in some Lloyds insurance investment trusts, dealers speculating that Mr George Soros's Quantum Fund had been buying shares in London Insurance Market Investment Trust, Benfield and Rea, and CLM Insurance.

**FT-SE-A All-Share Index**




**Equity shares traded**

Turnover by volume (million). Excluding: intra-market business and overseas turnover.




**Indices and ratios**

| | | | | | |
|---|---|---|---|---|---|
| FT-SE 100 | 3714.1 | -11.6 | FT Ordinary index | 2728.6 | -8.4 |
| FT-SE Mid 250 | 4366.2 | -9.8 | FT-SE-A Non Fins p/e | 18.82 | 18.85 |
| FT-SE-A 350 | 1873.3 | -5.5 | FT-SE 100 Fut Jul | 3704.0 | -13.0 |
| FT-SE-A All-Share | 1858.36 | -5.16 | 10 yr Gilt yield | 7.93 | 7.91 |
| FT-SE-A All-Share yield | 3.86 | 3.85 | Long gilt/equity yld ratio: | 2.14 | 2.15 |

**Best performing sectors**

1 Electronic & Elec +1.1
2 Gas Distribution +1.1
3 Pharmaceuticals +0.5
4 Household Goods +0.4
5 Engineering: Vehicles +0.2

**Worst performing sectors**

1 Telecommunications -1.3
2 Alcoholic Beverages -1.2
3 Tobacco -1.1
4 Transport -1.0
5 Insurance -0.9

## Strike worries hit BA

Scare stories about possible groundings at British Airways as a result of an all-out pilots' strike got the better of solid traffic figures yesterday.

The result of the BA pilots' ballot on strike action was not due until 7pm so the market opted for caution. Regulatory worries about the American Airlines marketing link also continued to weigh heavily on sentiment.

The upshot was that the stock came off 8 to 536p, in 5.4m traded, in spite of a 4.4 per cent improvement in June traffic flow (against 3.5 per cent in May) and an even more impressive 8.8 per cent bounce for premium business.

P&O was the other main transport casualty, sliding 8½ to 474½p following a reiterated sell recommendation from ABN Amro Hoare Govett.

The broker suspects that the City consensus on profits could be lowered next week, when analysts meet with the group for a trading update.

### Hanson at new low

Hanson fell to its lowest level for more than six years, dipping 2½ to 173p.

"The shares are drifting in the absence of news on the demerger," said one conglomerate analyst. The first of the demerger documents is expected towards the end of this month.

Cash market turnover was 6.6m shares and a further 4m equivalent passed through the traded options pits.

### TV takeover talk

Granada fell 11 to 838p as Kleinwort Benson warned that the shares could suffer if the company makes a bid for Yorkshire-Tyne Tees Television.

While Kleinwort is positive on Granada's long term prospects, it believes an acquisition of Yorkshire is hard to justify at current valuations.

The Broadcasting Bill, which received final House of Commons approval on Tuesday night, lifts the limit on companies owning more than two UK terrestrial commercial television licences, replacing it with a ceiling of 15 per cent of the total television audience. That would clear the way for Granada, which currently holds a 23.9 per cent stake in Yorkshire, to bid.

The other takeover candidates in the sector are perceived to be HTV, which rose 7 to 336p, and Scottish Television, 2 softer at 647p following a good run. Yorkshire, which has also been very strong recently, eased 3 to 1235p.

### NatPower active

A two-way tussle between gross and net income funds was said to be behind very big turnover in National Power, which saw the equivalent of 48.5m shares change hands in the form of the partly paid, fully paid and traded options.

The generator goes ex a 100p special dividend in less than two weeks. Gross funds, which can reclaim the dividend, have apparently been buying the shares, while it makes more sense for net income funds to sell now and buy them back once the dividend has been stripped out. National Power closed 2 higher at 524p in the fully paid and steady at 389p in the partly paid.

Another heavy turnover stock was RJB Mining, which bought back 17.12m of its own shares through BZW at 551p a share. The stake represented about 10 per cent of RJB's ordinary share capital. The stock declined 13 to 540p.

Bid talk continued to lift selected utility stocks. Wessex Water, which is seen to have a 500p to 550p a share price tag on it, added 7 at 361p. East Midland Electricity, which has been seeing institutions recently, closed 22 up at 565p.

J. Sainsbury slipped 5 to 377p following its agm. Forecasts were downgraded by some analysts after the company said 1995-96 had been a tough year with strong competition, particularly in petrol.

Unilever fell 17 to 1257p, with Merrill Lynch reiterating its "reduce" stance on the company. It believes the price had gone up recently for no fundamental reasons.

A press report that sliding insurance rates could herald gloom for the industry hit some insurance stocks. General Accident was down 9 at 647p and Commercial Union 8 cheaper at 576p.

Life assurer Lloyds Abbey rose 7 to 520p on the back of broker support. Kleinwort Benson and Credit Lyonnais Laing were both said to be recommending the shares.

SmithKline Beecham moved forward 8½ to 707p on the back of US buying and positive fundamental news. The company has secured a $90m deal with Schering-Plough, of the US, and Synthelabo, of France. The shares were helped further by a study which showed that SmithKline's Famvir treatment significantly reduces all symptoms of recurrent genital herpes in some patients.

Among housebuilders, Berkeley relinquished 13 at 604p as the profit-takers moved in following Tuesday's strong results. The shares have outpaced the market by more than 50 per cent over the past year.

Mobile phone stocks came off sharply with both Orange and Vodafone featuring at the bottom of the Footsie rankings.

Recent subscriber news from the sector has been all about tough competition in the UK. There was said to have been US selling yesterday. Orange shed 7 to 212½p and Vodafone 6¼ to 239p.

Speciality chemicals group Laporte rose 7 to 702p following a company presentation to investors on Tuesday night.

Textile stocks were under pressure after Sherwood, the lingerie manufacturer, issued a profits warning. The company said its interim results would show a "significant shortfall" compared to last year because of weak consumer demand in continental Europe.

Courtaulds Textiles, one of the sector leaders, retreated 10 to 344p, while Sherwood dropped 9 to 73p.

Electronics giant GEC shot to the top of the Footsie performance charts in the heaviest volume since early December, following bumper results and a raft of broker profit upgrades.

The group figures were comfortably ahead of City expectations, and there was talk of further solid earnings progress, sparked by the 10 per cent increase in the dividend, that really got behind sentiment. The shares closed 12 up at 363p in 23m traded.

"In the end, it was a fitting tribute to Lord Weinstock", said one trader. NatWest Securities raised its profits estimate for this year by £30m to £1.08bn and moved up by £85m to £1.15bn for 1997-98.

Pearson, the conglomerate which owns the Financial Times, was one of the worst performers in the blue chip index yesterday with a fall of 18 to 644p. Some dealers suggested nervousness was beginning to manifest itself over Pearson's sale of its Westminster Press regional newspaper arm.

Software group Psion jumped 16 to 425p after the company was said to have been talking to institutions about the attractions of a link with Amstrad. The two companies are holding takeover discussions.

**MARKET REPORTERS:** Peter John, Lisa Wood, Jeffrey Brown.

**FINANCIAL TIMES EQUITY INDICES**

| | Jul 3 | Jul 2 | Jul 1 | Jun 28 | Jun 27 | Yr ago | *High | *Low |
|---|---|---|---|---|---|---|---|---|
| Ordinary Share | 2728.6 | 2737.0 | 2736.8 | 2729.7 | 2714.1 | 2546.2 | 2885.2 | 2696.7 |
| Ord. div. yield | 4.09 | 4.08 | 4.08 | 4.09 | 4.11 | 4.18 | 4.12 | 3.76 |
| P/E ratio net | 16.12 | 16.16 | 16.16 | 16.12 | 16.04 | 15.92 | 17.25 | 15.56 |
| P/E ratio nil | 16.02 | 16.07 | 16.07 | 16.03 | 15.95 | 15.68 | 17.03 | 15.76 |

Ordinary Share index since compilation: high 2885.2 19/04/96; low 49.4 26/06/40. Base Date: 1/7/35.

Ordinary Share hourly changes

| Open | 9.00 | 10.00 | 11.00 | 12.00 | 13.00 | 14.00 | 15.00 | 16.00 | High | Low |
|---|---|---|---|---|---|---|---|---|---|---|
| 2740.6 | 2740.6 | 2737.3 | 2733.2 | 2733.4 | 2735.3 | 2735.9 | 2736.5 | 2736.1 | 2740.6 | 2728.3 |

| | Jul 3 | Jul 2 | Jul 1 | Jun 28 | Jun 27 | Yr ago |
|---|---|---|---|---|---|---|
| SEAQ bargains | 26,652 | 29,204 | 29,387 | 24,518 | 26,750 | 22,298 |
| Equity turnover (£m)† | - | 2039.0 | 1198.4 | 1792.7 | 1977.1 | 1517.2 |
| Equity bargains† | - | 35,245 | 32,211 | 29,798 | 31,742 | 30,914 |
| Shares traded (mil)† | - | 695.0 | 433.6 | 610.3 | 646.1 | 700.6 |

†Excluding intra-market business and overseas turnover.

| | Jul 3 | Jul 2 | Jul 1 | Jun 28 | Jun 27 | Yr ago | *High | *Low |
|---|---|---|---|---|---|---|---|---|
| FT-SE AIM | 1075.3 | 1077.30 | 1078.90 | 1079.80 | 1077.10 | - | 1140.40 | 985.70 |

*For 1996.

**London market data**

| Rises and falls* | | 52 Week highs and lows | | LIFFE Equity options | |
|---|---|---|---|---|---|
| Total Rises | 417 | Total Highs | 56 | Total contracts | 50,544 |
| Total Falls | 714 | Total Lows | 64 | Calls | 18,975 |
| Same | 1590 | | | Puts | 31,569 |

July 3 *Data based on Equity shares listed on the London Share Service.

**FUTURES AND OPTIONS**

FT-SE 100 INDEX FUTURES (LIFFE) £25 per full index point (APT)

| | Open | Sett price | Change | High | Low | Est. vol | Open int. |
|---|---|---|---|---|---|---|---|
| Sep | 3717.0 | 3704.0 | -13.0 | 3722.0 | 3702.0 | 7880 | [illegible] |
| Dec | - | 3722.0 | -13.0 | - | - | 0 | [illegible] |

FT-SE MID 250 INDEX FUTURES (LIFFE) £10 per full index point

| | Open | Sett price | Change | High | Low | Est. vol | Open int. |
|---|---|---|---|---|---|---|---|
| Sep | - | 4360.0 | -10.0 | - | - | 0 | [illegible] |

FT-SE 100 INDEX OPTION (LIFFE) (*3715) £10 per full index point

EURO STYLE FT-SE 100 INDEX OPTION (LIFFE) £10 per full index point

**LONDON RECENT ISSUES: EQUITIES**

**FT GOLD MINES INDEX**

**FT - SE Actuaries Share Indices — The UK Series**

| | Jul 3 | Day's chge% | Jul 2 | Jul 1 | Jun 28 | Year ago | Div. yield% | Net cover | P/E ratio | Xd adj. ytd | Total Return |
|---|---|---|---|---|---|---|---|---|---|---|---|
| FT-SE 100 | 3714.1 | -0.3 | 3725.7 | 3725.8 | 3711.0 | 3394.9 | 4.09 | 2.13 | 14.32 | 80.71 | 1320.85 |
| FT-SE Mid 250 | 4366.2 | -0.2 | 4376.0 | 4370.4 | 4353.2 | 3848.0 | 3.42 | 1.72 | 21.30 | 110.60 | 1780.81 |
| FT-SE Mid 250 ex Inv Trusts | 4405.1 | -0.2 | 4415.9 | 4409.6 | 4391.7 | 3854.3 | 3.50 | 1.78 | 20.27 | 118.24 | 1779.62 |
| FT-SE-A 350 | 1873.3 | -0.3 | 1878.8 | 1878.2 | 1870.9 | 1679.1 | 3.94 | 2.05 | 15.45 | 45.11 | 1368.98 |
| FT-SE-A 350 Higher Yield | 1799.5 | -0.3 | 1794.2 | 1795.5 | 1791.9 | 1685.6 | 5.29 | 1.92 | 12.32 | 64.48 | 1233.39 |
| FT-SE-A 350 Lower Yield | 1984.2 | -0.3 | 1970.5 | 1988.1 | 1957.0 | 1673.7 | 2.71 | 2.30 | 20.06 | 39.09 | 1383.12 |
| FT-SE SmallCap | 2185.93 | -0.1 | 2190.28 | 2188.54 | 2180.98 | 1848.51 | 2.87 | 1.76 | 24.05 | 47.48 | 1600.93 |
| FT-SE SmallCap ex Inv Trusts | 2185.65 | -0.1 | 2190.74 | 2188.92 | 2180.93 | 1822.79 | 3.15 | 1.84 | 21.58 | 45.18 | 1612.14 |
| FT-SE-A ALL-SHARE | 1858.36 | -0.3 | 1863.54 | 1862.96 | 1856.33 | 1657.82 | 3.86 | 2.04 | 15.90 | 44.61 | 1580.66 |

**FT-SE Actuaries All-Share**

**Hourly movements**

**FT-SE Actuaries 350 Industry baskets**

**TRADING VOLUME**

**Major Stocks Yesterday**

# WORLD STOCK MARKETS

## EUROPE

AUSTRIA (Jul 3 / Sch)

BELGIUM/LUXEMBOURG (Jul 3 / Frs.)

CZECH REP (Jul 3 / Koruna)

DENMARK (Jul 3 / Kr)

FINLAND (Jul 3 / Mkk)

FRANCE (Jul 3 / Frs.)

GERMANY (Jul 3 / Dm.)

GREECE (Jul 3 / Drachma)

ITALY (Jul 3 / Lire)

NETHERLANDS (Jul 3 / Fls.)

NORWAY (Jul 3 / Kroner)

POLAND (Jul 3 / Zloty)

PORTUGAL (Jul 3 / Escudo)

SPAIN (Jul 3 / Pta.)

SWEDEN (Jul 3 / Kronor)

| | | +/- | High | Low | Yld | P/E |
|---|---|---|---|---|---|---|
| ABA A | 115 | -1.50 | 120 | 89 | 2.3 | — |
| ABA B | 113.50 | -1 | 118 | 88.50 | 2.4 | — |
| Abb A | 707 | -2 | 720 | 648 | 2.3 | — |
| Abb B | 702 | -1 | 715 | 633 | 2.3 | — |

SWITZERLAND (Jul 3 / Frs.)

TURKEY (Jul 3 / TK Lira)



## PACIFIC

JAPAN (Jul 3 / Yen)

AUSTRALIA (Jul 3 / Aust$)

HONG KONG (Jul 3 / H.K.$)

INDONESIA (Jul 3 / Rupiah)

MALAYSIA (Jul 3 / MYR)

NEW ZEALAND (Jul 3 / NZ $)

SINGAPORE (Jul 3 / S$)

SOUTH KOREA (Jul 3 / Won)

| | | +/- | High | Low | Yld | P/E |
|---|---|---|---|---|---|---|
| HyEngC | 34,300xr | -200 | 41,900 | 33,100 | 0.1 | ... |
| KorEP | 27,900 | -100 | 33,500 | 27,500 | 1.8 | ... |
| KFstBk | 8,600 | -80 | 8,300 | 8,250 | ... | ... |
| KMTele | 667,000 | +7,000 | 688,000 | 586,000 | 0.2 | ... |
| LG Ele | 18,000 | -100 | 27,600 | 17,300 | 1.7 | ... |
| PohgSt | 51,300 | -700 | 64,600 | 48,700 | 1.9 | ... |
| SamElc | 72,500 | -400 | 111,000 | 65,100 | 1.4 | ... |
| SangHd | 13,700 | +300 | 18,383 | 11,600 | 3.6 | ... |
| Yukong | 23,500 | -200 | 29,600 | 22,300 | 2.8 | ... |

TAIWAN (Jul 3 / TW $)

| | | +/- | High | Low | Yld | P/E |
|---|---|---|---|---|---|---|
| CL Ins | 192 | -2 | 198 | 112 | 0.8 | ... |
| CH Bnk | 158 | -1 | 163 | 83 | 0.6 | ... |
| ChiDev | 88 | -1.50 | 97.50 | 73 | 1.7 | ... |
| ChiStl | 27.50 | -.50 | 31.50 | 19 | 8.3 | ... |
| FstBk | 157 | -1 | 165 | 94 | 0.8 | ... |
| NYPete | 68.50 | -.50 | 64.50 | 38 | 1.9 | ... |
| ShK Li | 122 | -5 | 127 | 57 | 1.2 | ... |
| TaiSed | 57 | ... | 67 | 55 | — | ... |

THAILAND (Jul 3 / Baht)

| | | +/- | High | Low | Yld | P/E |
|---|---|---|---|---|---|---|
| AdvInf | 378 | ... | 510 | 202 | 1.3 | ... |
| BgkBnk | 384 | +18 | 380 | 370 | 1.6 | ... |
| BgkLnd | 33.50 | +1.50 | 45 | 31 | 0.7 | ... |
| DsSiam | 149 | +5 | 199 | 130 | ... | ... |
| FinOne | 134 | +6 | 177 | 120 | 2.2 | ... |
| KrThBk | 122 | +3 | 147 | 108 | 2.5 | ... |
| LndHou | 362 | +44 | 512 | 308 | 1.3 | ... |
| PhThai | 191 | +7 | 368 | 173 | 1.9 | ... |
| SiamCm | 1,282 | +12 | 1,624 | 1,180 | 1.8 | ... |
| SiamCI | 304 | +2 | 424 | 282 | 2.8 | ... |
| SiamCB | 388 | +18 | 430 | 312 | 2.3 | ... |
| TeleAs | 54.50 | +.50 | 83 | 49.50 | ... | ... |
| ThaiFrm | 292 | +4 | 324 | 258 | 1.8 | ... |

## AFRICA

SOUTH AFRICA (Jul 3 / Rand)

## NORTH AMERICA

CANADA

TORONTO (Jul 3 / Can $)

4 pm close

MONTREAL (Jul 3 / Can $)

4 pm close

Prices supplied by Telekurs

NOTES – Prices on this page are as quoted on the individual exchanges and are mostly last traded prices. High/Lows are based on data from Jan 1 1996. # Dealings suspended. xd Ex dividend. xp Ex scrip issue. xr Ex rights. xa Ex all. † Priced in US $.



## INDICES

| | Jul 3 | Jul 2 | Jul 1 | 1996 High | | 1996 Low | |
|---|---|---|---|---|---|---|---|
| **Argentina** | | | | | | | |
| General(29/12/77) | (u) | 18223.73 | 18322.62 | 18881.85 | 20/5 | 15826.61 | 19/3 |
| **Australia** | | | | | | | |
| All Ordinaries(1/1/80) | 2235.8 | 2258.3 | 2245.1 | 2338.00 | 26/4 | 2187.40 | 11/3 |
| All Mining(1/1/80) | 1005.9 | 1021.3 | 1019.9 | 1118.40 | 8/5 | 1004.78 | 18/1 |
| **Austria** | | | | | | | |
| Credit Aktien(30/12/84) | 371.14 | 369.69 | 371.00 | 384.99 | 31/5 | 352.78 | 2/1 |
| Traded Index(2/1/91) | 1081.09 | 1074.61 | 1075.77 | 1142.61 | 28/5 | 976.27 | 2/1 |
| **Belgium** | | | | | | | |
| BEL20(1/1/91) | 1765.54 | 1765.06† | 1757.62 | 1773.28 | 28/5 | 1574.90 | 2/1 |
| **Brazil** | | | | | | | |
| Bovespa(29/12/83) | (u) | 63455.0 | 61562.0 | 63455.00 | 2/7 | 43981.60 | 2/1 |
| **Canada** | | | | | | | |
| Metals Minls♦(1975) | (u) | 5092.30 | (c) | 5824.60 | 8/5 | 4067.47 | 18/1 |
| Composite♦(1975) | (u) | 5081.46 | (c) | 5248.40 | 31/5 | 4738.70 | 15/1 |
| Portfolio♦(4/1/83) | (u) | 2490.46 | (c) | 2595.55 | 27/5 | 2327.38 | 12/1 |
| **Chile** | | | | | | | |
| IGPA Gen(31/12/80) | (u) | 5668.41 | 5834.44 | 5804.33 | 8/1 | 5218.28 | 8/4 |
| **Denmark** | | | | | | | |
| CopenhagenSE(3/1/83) | 414.41 | 413.17 | 410.64 | 414.41 | 3/7 | 368.40 | 2/1 |
| **Finland** | | | | | | | |
| HEX General(28/12/90) | 2042.75 | 2043.15 | 2025.98 | 2070.42 | 31/5 | 1851.87 | 10/1 |
| **France** | | | | | | | |
| SBF 250(31/12/90) | 1442.98 | 1442.11 | 1445.82 | 1457.58 | 6/6 | 1238.18 | 2/1 |
| CAC 40(31/12/87) | 2113.98 | 2111.80 | 2118.75 | 2146.79 | 30/4 | 1997.86 | 11/1 |
| **Germany** | | | | | | | |
| FAZ Aktien(31/12/58) | 908.57 | 911.41 | 907.02 | 911.58 | 28/6 | 818.56 | 2/1 |
| Commerzbank(1/12/53) | 2818.3 | 2827.5 | 2814.9 | 2827.50 | 2/7 | 2370.30 | 2/1 |
| DAX(30/12/87) | 2568.95 | 2572.25 | 2564.00 | 2573.80 | 28/6 | 2284.88 | 2/1 |
| **Greece** | | | | | | | |
| Athens SE(31/12/80) | 902.21 | 909.50 | 922.74 | 1017.98 | 4/3 | 891.83 | 24/6 |
| **Hong Kong** | | | | | | | |
| Hang Seng(31/7/64) | 11063.28 | 11084.43 | 11002.61 | 11594.99 | 16/2 | 10204.87 | 2/1 |
| **India** | | | | | | | |
| BSE Sens(1979) | 3656.03 | 3747.47 | 3754.38 | 4069.38 | 18/6 | 2828.08 | 25/1 |
| **Indonesia** | | | | | | | |
| Jakarta Comp.(10/8/82) | 594.07 | 594.40 | 598.28 | 650.21 | 24/4 | 512.48 | 2/1 |
| **Ireland** | | | | | | | |
| ISEQ Overall(4/1/88) | 2533.46 | 2547.65 | 2544.91 | 2586.19 | 18/6 | 2234.61 | 2/1 |
| **Italy** | | | | | | | |
| Banca Comm Ital(1972) | 655.04 | 657.10 | 658.67 | 674.10 | 20/5 | 572.21 | 27/3 |
| MIB General(2/1/95) | 1111.0 | 1114.0 | 1113.0 | 1142.00 | 20/5 | 970.88 | 27/3 |
| **Japan** | | | | | | | |
| Nikkei 225(16/5/49) | 22379.02 | 22347.97 | 22455.49 | 22666.80 | 26/6 | 19734.70 | 13/3 |
| Nikkei 300(1/10/82) | 315.05 | 315.09 | 317.02 | 318.70 | 28/6 | 284.48 | 11/3 |
| Topix(4/1/68) | 1698.34 | 1699.43 | 1708.21 | 1722.13 | 26/6 | 1524.12 | 13/3 |
| 2nd Section(4/1/68) | 2248.21 | 2251.48 | 2248.90 | 2251.48 | 2/7 | 1982.78 | 14/3 |
| **Malaysia** | | | | | | | |
| KLSE Comp.(4/4/86) | 1135.07 | 1139.82 | 1137.05 | 1188.54 | 30/4 | 993.18 | 2/1 |
| **Mexico** | | | | | | | |
| IPC(Nov 1978) | (u) | 3198.91 | 3177.65 | 3362.88 | 22/5 | 2738.38 | 8/3 |
| **Netherland** | | | | | | | |
| CBS TtlRtnGen(End 83) | 644.3 | 643.3 | 643.3 | 652.80 | 12/6 | 538.50 | 2/1 |
| CBS All Shr(End 83) | 382.2 | 381.6 | 381.6 | 387.10 | 12/6 | 328.70 | 2/1 |
| **New Zealand** | | | | | | | |
| Cap. 40(1/7/86) | 2128.40 | 2108.21 | 2098.26 | 2203.86 | 4/1 | 2025.14 | 7/6 |
| **Norway** | | | | | | | |
| Oslo SE Ind(2/1/83) | 1436.61 | 1438.39 | 1430.22 | 1486.71 | 12/6 | 1258.88 | 30/1 |
| **Philippines** | | | | | | | |
| Manila Comp(2/1/85) | 3351.73 | 3305.68 | 3294.09 | 3361.73 | 3/7 | 2578.97 | 2/1 |
| **Portugal** | | | | | | | |
| BVL 30(4/1/93) | 1869.29 | 1864.24 | 1862.30 | 1869.29 | 3/7 | 1682.81 | 2/1 |
| **Singapore** | | | | | | | |
| SES All-S'pore(2/4/75) | 588.64 | 587.37 | 570.25 | 618.37 | 5/2 | 553.88 | 2/1 |
| **South Africa** | | | | | | | |
| JSE Gold(28/9/78) | 1816.7▼ | 1771.6 | 1721.5 | 2030.49 | 29/5 | 1346.49 | 2/1 |
| JSE Ind.(28/9/78) | 8188.8▼ | 8190.5 | 8138.5 | 8738.30 | 25/1 | 7723.20 | 20/5 |
| **South Korea** | | | | | | | |
| KoreaCompEx**(4/1/80) | 838.24 | 837.93 | 833.79 | 986.84 | 7/5 | 817.43 | 29/6 |
| **Spain** | | | | | | | |
| Madrid SE(30/12/85) | 371.35 | 373.48 | 376.25 | 376.25 | 1/7 | 323.75 | 11/1 |
| **Sweden** | | | | | | | |
| AffarsvarldsGen(1/2/37) | 1990.8 | 1995.0 | 1991.8 | 2019.80 | 6/6 | 1706.89 | 22/1 |
| **Switzerland** | | | | | | | |
| Swiss Bk Ind(31/12/58) | 1783.31 | 1777.0 | 1785.67 | 1787.42 | 28/6 | 1516.19 | 17/1 |
| SBC General(1/4/87) | 1270.98 | 1270.07 | 1264.60 | 1278.99 | 3/7 | 1114.47 | 26/1 |
| **Taiwan** | | | | | | | |
| Weighted Pr.**(30/6/66) | 6435.41 | 6497.83 | (c) | 6660.41 | 29/6 | 4690.22 | 6/2 |
| **Thailand** | | | | | | | |
| Bangkok SET(30/4/75) | 1268.20 | 1239.17 | (c) | 1415.94 | 6/2 | 1222.40 | 24/6 |
| **Turkey** | | | | | | | |
| Istanbul Comp.(Jan 1986) | 72494.3 | 70961.6 | 70326.7 | 72494.30 | 3/7 | 38079.39 | 2/1 |
| **WORLD** | | | | | | | |
| MS Capital Intl(1/1/70) | 778.4* | 779.9 | 783.2 | 783.20 | 2/7 | 725.90 | 15/1 |
| **CROSS-BORDER** | | | | | | | |
| Eurotrack 100(26/10/90) | 1703.23 | 1706.94 | 1701.31 | 1798.94 | 2/7 | 1604.40 | 11/1 |
| Euro Top-100(26/6/90) | 1440.82 | 1442.72 | 1440.83 | 1468.26 | 29/4 | 1333.01 | 11/1 |
| HSBC JC Drgn(31/12/88) | (u) | 380.40 | 379.52 | 383.16 | 15/4 | 344.19 | 2/1 |
| ING Brngs Emrg(7/1/92) | (u) | 164.75 | 164.61 | 164.75 | 2/7 | 147.35 | 2/1 |

## INDEX FUTURES

| | Open | Sett Price | Change | High | Low | Est. vol. | Open int. |
|---|---|---|---|---|---|---|---|
| **CAC-40 (FFr200 x index)** | | | | | | | |
| Jul | 2110.0 | 2114.0 | +4.0 | 2123.0 | 2110.0 | 7,788 | 38,672 |
| Aug | 2116.5 | 2120.5 | +4.0 | 2118.0 | 2116.5 | 511 | 1,852 |
| **DAX** | | | | | | | |
| Sep | 2579.0 | 2585.0 | +0.5 | 2591.5 | 2579.0 | 8,244 | – |
| Dec | 2604.5 | 2604.5 | -0.5 | 2607.5 | 2603.5 | 14 | – |
| **OMX** | | | | | | | |
| Jul | 1549.25 | 1547.00 | -12.00 | 1553.00 | 1546.00 | 1,477 | 14,794 |
| Aug | 1555.00 | 1553.00 | +5.00 | 1555.00 | 1542.25 | 50 | 1,100 |
| **SOFFEX** | | | | | | | |
| Jul | 3748.0 | 3755.5 | +8.5 | 3761.0 | 3735.0 | 4,023 | 31,138 |
| Aug | 3750.0 | 3763.0 | -0.2 | 3752.0 | 3750.0 | 2 | 85 |

** Sat Jun 29: Taiwan Weighted Price 6580.41; Korea Comp Ex 817.43. Base values of all indices are 100 except Australia All Ordinary and Mining – 500; Austria Traded, BEL20, HEX Gen., MIB Gen., BVL 30, SBF250, CAC40, Euro Top-100, ISEQ Overall, Toronto Comp./Metals & Minerals and DAX – all 1,000; JSE Gold – 255.7; JSE 20 Industrials – 264.3; NYSE All Common – 50 and Standard and Poor's – 10. \$\$ Montreal. ♦ Toronto. (c) Closed. (u) Unavailable. ‡ IBIS/DAX after-hours index: Jul 3 - 2588.32 +1.00.

## US INDICES

| Dow Jones | Jul 2 | Jul 1 | Jun 28 | 1996 High | 1996 Low | Since compilation High | Since compilation Low |
|---|---|---|---|---|---|---|---|
| Industrials | 5720.38 | 5729.98 | 5654.63 | 5778.00 (22/5) | 5032.94 (10/1) | 5778.00 (22/5/96) | 41.22 (8/7/32) |
| Home Bonds | 101.80 | 101.78 | 101.71 | 108.09 (14/2) | 101.08 (8/5) | 108.77 (18/10/93) | 54.99 (1/10/81) |
| Transport | 2202.03 | 2215.44 | 2181.76 | 2286.28 (22/5) | 1882.71 (18/1) | 2286.28 (22/5/96) | 12.32 (8/7/32) |
| Utilities | 220.72 | 220.65 | 220.30 | 234.60 (12/2) | 205.42 (7/5) | 256.46 (31/8/93) | 10.50 (8/4/32) |

DJ Ind. Day's high 5769.86 (5749.19) Low 5666.29 (5637.26) (Theoretical♦)
Day's High 5733.31 (5729.96) Low 5696.63 (5655.97) (Actual♦)

| Standard and Poors | Jul 2 | Jul 1 | Jun 28 | 1996 High | 1996 Low | Since compilation High | Since compilation Low |
|---|---|---|---|---|---|---|---|
| Composite‡ | 673.61 | 675.88 | 670.63 | 678.51 (24/5) | 598.48 (10/1) | 678.51 (24/5/96) | 4.40 (1/6/32) |
| Industrials▼ | 799.53 | 802.23 | 796.36 | 807.88 (5/6) | 702.07 (15/1) | 807.88 (5/6/96) | 3.62 (21/6/32) |
| Financial | 67.94 | 68.13 | 67.33 | 68.66 (5/3) | 59.67 (10/1) | 68.66 (5/3/96) | 8.64 (1/10/74) |
| NYSE Comp. | 361.01 | 361.70 | 359.28 | 363.74 (24/5) | 321.41 (10/1) | 363.74 (24/5/96) | 4.46 (25/4/42) |
| Amex Mkt Val | 579.58 | 580.25 | 576.79 | 614.89 (22/5) | 529.05 (18/1) | 614.89 (22/5/96) | 29.31 (9/12/72) |
| NASDAQ Comp | 1191.15 | 1197.46 | 1185.02 | 1249.14 (5/6) | 988.57 (15/1) | 1249.14 (5/6/96) | 54.87 (31/10/72) |

### ■ RATIOS

| | Jun 28 | Jun 21 | Jun 14 | Year ago |
|---|---|---|---|---|
| Dow Jones Ind. Div. Yield | 2.19 | 2.17 | 2.19 | 2.44 |

| | Jun 26 | Jun 19 | Jun 12 | Year ago |
|---|---|---|---|---|
| S & P Ind. Div. yield | 1.87 | 1.87 | 1.87 | 2.14 |
| S & P Ind. P/E ratio | 22.29 | 22.22 | 19.65 | 18.60 |

### ■ NEW YORK ACTIVE STOCKS

| Tuesday | Stocks traded | Close price | Change on day |
|---|---|---|---|
| Telefnc Peru | 8,634,000 | 23⅝ | +3⅛ |
| Repsol | 7,901,800 | 34⅛ | -⅛ |
| Digital Equip | 5,873,800 | 40⅜ | -5⅝ |
| ADT | 5,510,100 | 21⅞ | -⅞ |
| British Steel | 4,174,700 | 26⅝ | +½ |
| Rochester | 2,854,700 | 20⅝ | -⅛ |
| Amer P & P | 2,634,600 | 15⅝ | +⅛ |
| Motorola | 2,584,200 | 64⅝ | +⅝ |
| Baxter | 2,555,400 | 46⅝ | -1 |
| Merck | 2,532,600 | 65⅝ | -⅛ |

### ■ TRADING ACTIVITY

● Volume (million)

| | Jul 2 | Jul 1 | Jun 28 |
|---|---|---|---|
| New York SE | 369.967 | 347.888 | 408.852 |
| Amex | 20.216 | 18.151 | 29.640 |
| NASDAQ | 536.167 | 514.148 | 640.662 |
| **NYSE** | | | |
| Issues Traded | 3,180 | 3,165 | 3,168 |
| Rises | 1,213 | 1,425 | 1,784 |
| Falls | 1,116 | 1,032 | 744 |
| Unchanged | 851 | 708 | 640 |
| New Highs | 92 | 78 | 135 |
| New Lows | 28 | 28 | 32 |

| | Open | Latest | Change | High | Low | Est. vol. | Open int. |
|---|---|---|---|---|---|---|---|
| **S&P 500** | | | | | | | |
| Sep | 678.80 | 676.20 | -0.60 | 678.80 | 677.90 | 52,820 | 170,869 |
| Dec | – | 685.15 | – | – | – | 874 | 7,114 |

| | Open | Sett price | Change | High | Low | Est. vol. | Open int. |
|---|---|---|---|---|---|---|---|
| **Nikkei 225** | | | | | | | |
| Sep | 22360.0 | 22450.0 | +80.0 | 22470.0 | 22290.0 | 15,677 | 223,572 |
| Dec | 22400.0 | 22410.0 | +10.0 | 22410.0 | 22400.0 | 31 | 4,121 |

Open interest figures for previous day.

† Correction. * Calculated at 15.00 GMT. ♦ Excluding bonds. ‡ Industrial, plus Utilities, Financial and Transportation. ♦ The DJ Ind. Index theoretical day's highs and lows are the averages of the highest and lowest prices reached during the day by each stock; whereas the actual day's highs and lows (supplied by Telekurs) represent the highest and lowest values that the index has reached during the day. (The figures in brackets are previous day's). ▼ Subject to official recalculation.

### ■ TOKYO - MOST ACTIVE STOCKS: Wednesday, July 3, 1996

| | Stocks Traded | Closing Prices | Change on day |
|---|---|---|---|
| Nisshin Steel | 7.4m | 410 | -7 |
| Mitsubishi Hvy | 5.0m | 861 | +5 |
| Keisei Ele Ry | 5.0m | 1270 | |
| NEC Corp | 4.0m | 1200 | +20 |
| Nihon Nosan Kgy | 3.3m | 539 | +44 |
| Toshiba Corp | 3.2m | 775 | +14 |
| Mitsui Fudosan | 2.9m | 1510 | -10 |
| Sumitomo Prec | 2.8m | 1150 | +20 |
| Nippon Stl Corp | 2.8m | 367 | -2 |
| Hitachi | 2.7m | 1020 | -10 |

# NEW YORK STOCK EXCHANGE PRICES

*4 pm close July 3*

| 1996 High | Low | Stock | Div | Yld. % | P/E | Sls 100s | High | Low | Close Quote | Ch'ge Prev. Close |
|---|---|---|---|---|---|---|---|---|---|---|
| 23¾ | 19 | AAR | 0.48 | 2.4 | 19 | 239 | 19¾ | 19⅜ | 19¾ | +⅜ |
| 46⅛ | 36⅝ | AMP | 1.00 | 2.5 | 20 | 2297 | 41¼ | 40¼ | 40⅜ | -¾ |
| 97½ | 68 | AMR | | | 21 | 7385 | 89⅞ | 87⅝ | 87¾ | -2⅛ |
| 50½ | 37⅜ | ASA | 1.80 | 4.5 | 26 | 484 | 40⅛ | 39⅝ | 39¾ | |
| 44¾ | 39⅛ | AbbotL | 0.96 | 2.2 | 18 | 4326 | 43⅝ | 43¼ | 43⅜ | +¼ |
| 17¼ | 13¼ | AbitIb Pr | 0.40 | 2.9 | 7 | 1804 | 13¾ | 13⅝ | 13⅝ | -⅛ |
| 39⅝ | 27 | ABM Ind | 0.70 | 1.8 | 20 | 43 | u39⅝ | 39⅜ | 39⅝ | +⅛ |
| 18½ | 13⅞ | Acptncelo | | | 48 | 235 | u18½ | 18 | 18½ | +½ |
| 50⅜ | 37¾ | ACE Ltd | 0.56 | 1.2 | 11 | 439 | 46⅞ | 45⅝ | 46⅞ | +⅛ |
| 9⅞ | 9⅛ | ACM Gvt In x | 0.90 | 9.2 | 8 | 80 | u9⅞ | 9¾ | 9¾ | -⅛ |
| 7⅞ | 6⅝ | ACM GvOpp x | 0.57 | 8.3 | | 114 | 7 | 6⅞ | 6⅞ | |
| 7¼ | 6 | ACM Gvt Sp x | 0.66 | 10.4 | | 343 | 6½ | 6⅜ | 6⅜ | |
| 9⅛ | 8¼ | ACM Gvt Sn x | 0.90 | 10.6 | | 583 | 8⅝ | 8⅝ | 8½ | |
| 9½ | 8½ | ACM Man x | 0.90 | 10.4 | | 289 | 8⅝ | d8½ | 8⅝ | |
| 30¾ | 16½ | AcmeCiv | 0.52 | 1.7 | 7 | 6 | 30 | 29⅞ | 29⅞ | |
| 13⅞ | 6⅛ | Acme Elect | | | 45 | 121 | 8⅜ | 8⅛ | 8⅛ | -⅛ |
| 33¾ | 27¾ | Acordia | 0.80 | 2.4 | 20 | 6 | 33⅛ | 33 | 33⅛ | |
| 21⅞ | 12 | Acuson | | | 67 | 387 | 14¾ | 14⅝ | 14¾ | +⅛ |
| 19½ | 18⅜ | Adams Expr | 1.66 | 8.6 | 0 | 141 | 19⅜ | 19¼ | 19⅜ | |
| 21¼ | 12⅞ | AdvMic | | | 5 | 5896 | 13¾ | 13½ | 13¾ | +⅛ |
| 11⅛ | 8½ | Advest Grp | 0.16 | 1.5 | 7 | 54 | 10⅝ | 10⅜ | 10⅝ | |
| 28⅛ | 9⅛ | Advo Inc | 0.10 | 1.0 | 58 | 120 | 10⅜ | 10⅛ | 10¼ | +⅛ |
| 50⅜ | 41⅛ | Aegon | 1.19 | 2.5 | 14 | 24 | 47¾ | 47⅜ | 47⅝ | +1⅜ |
| 6¾ | 3½ | Aerfin | | | 4 | 604 | 6⅛ | 6 | 6⅛ | |
| 78¼ | 66⅜ | AetnaL | 2.76 | 3.9 | 18 | 6591 | 72⅛ | 71⅜ | 71⅝ | -⅞ |
| 33 | 28¾ | Aflac | 0.40 | 1.3 | 12 | 1881 | 31 | 30½ | 30½ | -¼ |
| 20⅜ | 17⅛ | AGL Res | 1.06 | 5.8 | 16 | 273 | 19⅛ | 18⅞ | 18⅞ | -⅛ |
| 28 | 21¼ | Ahmnsn | 0.88 | 3.2 | 7 | 2815 | 27⅜ | 27 | 27¼ | -⅛ |
| [illegible] | | | | | | | | | | |

- B -

[illegible]

- C -

[illegible]

- D -

[illegible]

- E -

[illegible]

- F -

[illegible]

- G -

[illegible]

- H -

[illegible]

- I -

[illegible]

- J -

[illegible]

- K -

[illegible]

- L -

[illegible]

- M -

[illegible]

- N -

[illegible]

- O -

[illegible]

- P - Q -

[illegible]

- R -

[illegible]

- S -

[illegible]

Continued on next page

4 pm close July 3

# NYSE PRICES

| 1996 High | Low | Stock | Div | Yld % | P/E | Sls 100s | High | Low | Close Quote | Chng Prev. Close |
|---|---|---|---|---|---|---|---|---|---|---|
| Continued from previous page | | | | | | | | | | |
| 20⅜ | 13⅛ | SelAll | 0.08 | 0.4 | 39 | 2542 | 15¼ | 14¾ | 15¼ | +¼ |
| 21 | 17 | Scotsman x | 0.10 | 0.5 | 12 | 28 | 20¼ | 20⅛ | 20⅛ | +⅛ |
| 47½ | 38⅛ | Scripps | 0.52 | 1.1 | 27 | 1097 | u47½ | 46½ | 46½ | -1 |
| 18⅛ | 14½ | ScuddrNAsF | 0.02 | 0.1 | | 280 | 14⅝ | d14½ | 14⅝ | +⅛ |
| 12⅞ | 11 | ScuddrNEuF | 0.16 | 1.3 | | 161 | 12¾ | 12¾ | 12¾ | |
| 20½ | 16 | SeaCnB | 0.70 | 3.7 | 2 | 4 | 19 | 19 | 19 | -¼ |
| 16 | 15 | SeaCt.4625 | 1.46 | 9.4 | | 3 | 15⅝ | 15½ | 15½ | |
| 67¾ | 42¼ | S'gate | | | 17 | 13518 | 46⅜ | 44⅞ | 45⅛ | -1⅜ |
| 38⅜ | 31¾ | Seagrm | 0.60 | 1.8 | 23 | 1959 | 33⅝ | 33⅜ | 33½ | -⅛ |
| 28 | 17⅛ | Seagull En | | | 17 | 1777 | u26 | 24⅝ | 26 | +1⅛ |
| 38⅛ | 25 | Sealed Air | | | 25 | 73 | 34⅞ | 34⅝ | 34⅝ | |
| 53⅞ | 38¼ | SearsR | 0.92 | 1.9 | 13 | 18413 | 48¼ | 47¼ | 47¾ | +½ |
| 22⅝ | 19¼ | SecCapSBI | 1.24 | 5.7 | 21 | 273 | 21¾ | 21⅝ | 21⅝ | -⅛ |
| 13 | 11⅞ | Seligm Sel | 0.84 | 6.6 | | 3 | 12¾ | 12¾ | 12¾ | +⅛ |
| 23¾ | 13⅝ | Sensormat | 0.22 | 1.4 | 13 | 1872 | 15⅞ | 15¾ | 15¾ | |
| 44¼ | 29½ | SequaA | 0.60 | 1.4 | 118 | 45 | u44¼ | 43⅝ | 44⅛ | +⅝ |
| 50 | 39 | SequaB | 0.60 | 1.0 | 130 | 3 | 49¾ | 49¼ | 49¾ | -¾ |
| 60¼ | 38⅞ | SerVCp | 0.48 | 0.8 | 30 | 2715 | 58¼ | 58 | 58¼ | |
| 23½ | 18½ | SvMstr | 0.68 | 3.0 | 15 | 932 | 23⅛ | 22¾ | 23 | +¼ |
| 6¼ | 4½ | ServMerch | | | 10 | 4987 | 5⅝ | 5¼ | 5⅜ | -¼ |
| 46¼ | 28½ | SGSThm | | | 8 | 1549 | 37½ | 36½ | 36¾ | -1⅛ |
| 15⅛ | 10⅝ | Shaw Ind | 0.30 | 2.2 | 40 | 584 | 13½ | 13¼ | 13⅜ | -⅛ |
| 12⅞ | 10⅛ | Shelby WR | 0.28 | 2.5 | 13 | 30 | 11⅛ | 11 | 11 | |
| 89½ | 76⅝ | ShellTr | 3.26 | 3.7 | 18 | 221 | 89½ | 88⅛ | 88½ | |
| 47 | 39 | SherW | 0.70 | 1.5 | 19 | 1528 | u47 | 46¼ | 46⅝ | +⅛ |
| 13⅜ | 7⅞ | Shoneys | | | 12 | 786 | 10¾ | 10⅝ | 10¾ | |
| 35½ | 21 | Showboat | 0.10 | 0.3 | 42 | 1324 | 29¾ | 28½ | 28¾ | -¾ |
| 25⅞ | 22¼ | Sierra Pac | 1.18 | 4.6 | 12 | 383 | 25¾ | 25⅝ | 25⅝ | |
| 8 | 4⅜ | SignetApp | | | 1 | 3 | 4⅜ | d4⅜ | 4⅜ | |
| 27¼ | 21⅜ | Signet Bnk | 0.80 | 3.4 | 13 | 2080 | 23⅝ | 22⅞ | 23⅜ | +⅝ |
| 30⅝ | 21¼ | SiliconGr | | | 19 | 9446 | 25¼ | 24 | 24½ | -⅞ |
| 9¾ | 7⅜ | Sizeler | 0.88 | 10.1 | 35 | 39 | 8¾ | 8¾ | 8¾ | +⅛ |
| [illegible] | | | | | | | | | | |

| 1996 High | Low | Stock | Div | Yld % | P/E | Sls 100s | High | Low | Close Quote | Chng Prev. Close |
|---|---|---|---|---|---|---|---|---|---|---|
| 7¾ | 6¾ | TempltGlob x | 0.60 | 8.7 | [illegible] | | | | | |
| 7½ | 6⅜ | TempltGIFd | 0.60 | 8.7 | [illegible] | | | | | |
| 58½ | 47⅝ | Tenneco | 1.80 | 3.6 | [illegible] | | | | | |
| 38⅜ | 34⅜ | Teppco Ptr | 0.28 | 0.7 | 11 | [illegible] | | | | |
| 27⅝ | 18 | Teradyne | | | [illegible] | | | | | |
| 9¼ | 4⅛ | Terex | 0.08 | 0.7 | 2 | [illegible] | | | | |
| 14¼ | 11 | Terra Inds | 0.16 | 1.3 | 5 | [illegible] | | | | |
| 11⅝ | 6 | Tesoro | | | 4 | [illegible] | | | | |
| 88¾ | 75½ | Texaco | 3.20 | 3.7 | 35 | [illegible] | | | | |
| 69¼ | 50¼ | Texas Ind | 0.40 | 0.9 | 10 | [illegible] | | | | |
| 58⅝ | 42¾ | TxInst x | 0.68 | 1.3 | 9 | [illegible] | | | | |
| 32½ | 25⅝ | Texas Pac | 0.40 | 1.4 | 28 | [illegible] | | | | |
| 43¼ | 38½ | TxUtil | 2.00 | 4.7 | 109 | [illegible] | | | | |
| 3⅜ | 2¼ | Textl Inds | 1.10 | 36.7 | 20 | [illegible] | | | | |
| 80 | 60⅛ | Textron | 1.76 | 2.2 | 16 | [illegible] | | | | |
| 5½ | 3½ | Thackeray | | | 10 | [illegible] | | | | |
| 17 | 13 | Thai Cap | 1.90 | 14.2 | | [illegible] | | | | |
| 27¾ | 21⅛ | Thai Fund | 0.33 | 1.4 | | [illegible] | | | | |
| 44⅜ | 30½ | ThermoElec | 0.12 | 0.3 | 35 | [illegible] | | | | |
| 44⅝ | 32⅞ | Thiokl | 0.68 | 1.7 | 6 | [illegible] | | | | |
| 40½ | 35½ | ThBett | 1.72 | 3.0 | 17 | [illegible] | | | | |
| 23⅞ | 18⅛ | Thomas Ind | 0.40 | 2.1 | 16 | [illegible] | | | | |
| 29½ | 21½ | 360Com | | | | 228 | [illegible] | | | |

\- T -

| 1996 High | Low | Stock | Div | Yld % | P/E | Sls 100s | High | Low | Close Quote | Chng Prev. Close |
|---|---|---|---|---|---|---|---|---|---|---|
| 40½ | 29⅜ | Tidwtr | 0.50 | 1.1 | 37 | [illegible] | | | | |
| 78¼ | 49⅞ | Tiffany | 0.40 | 0.5 | 28 | [illegible] | | | | |
| 45¼ | 37¼ | TdWarn | 0.36 | 0.9 | 61 | [illegible] | | | | |
| 46 | 30⅝ | TmMirA | 0.40 | 0.9 | 14 | [illegible] | | | | |
| 47⅝ | 37⅞ | Timken | 1.20 | 3.0 | 11 | [illegible] | | | | |
| 7¾ | 5⅜ | TitanCp | | | 12 | [illegible] | | | | |
| [illegible] | | | | | | | | | | |

\- U -

[illegible]

\- V -

[illegible]

\- W -

[illegible]

\- X-Y-Z -

| 1996 High | Low | Stock | Div | Yld % | P/E | Sls 100s | High | Low | Close Quote | Chng Prev. Close |
|---|---|---|---|---|---|---|---|---|---|---|
| 54¾ | 39¾ | Xerox | 1.16 | 2.2 | 41 | 7234 | 53⅞ | 53 | 53⅜ | -¼ |
| 47⅞ | 38¾ | Xtra Corp | 0.72 | 1.6 | 18 | 41 | 45¾ | 45⅝ | 45⅝ | |
| 25¾ | 20⅜ | Yankee Egy | 1.30 | 5.8 | 12 | 16 | 22½ | 22⅜ | 22½ | +⅛ |
| 53¾ | 49⅞ | York Int x | 0.36 | 0.7 | 22 | 713 | 52⅛ | 51½ | 51½ | -⅝ |
| 3⅞ | 3 | Zapata | 0.14 | 3.9 | 9 | 579 | 3¾ | 3⅝ | 3⅝ | |
| 25¾ | 5⅞ | ZenthEl | | | 6 | 789 | 11⅞ | 11½ | 11½ | -⅜ |
| 28⅞ | 21⅛ | Zenith Nat | 1.00 | 3.5 | 39 | 78 | 27⅝ | 27½ | 27½ | |
| 7⅛ | 6½ | Zenix Inc x | 0.72 | 10.3 | | 226 | 7 | 6⅞ | 7 | |
| 22⅞ | 15¼ | Zero | 0.12 | 0.6 | 19 | 261 | 21½ | 21⅛ | 21⅜ | |
| 23¼ | 19⅜ | Zurn Ind x | 0.40 | 1.9 | 15 | 271 | 21¼ | 20¾ | 20¾ | -⅛ |
| 11⅞ | 10¾ | Zweig Fund | 1.06 | 9.7 | | 134 | 11⅛ | 11 | 11⅛ | |
| 9 | 8¼ | Zweig Totl | 0.84 | 10.0 | | 1213 | 8½ | 8⅜ | 8⅜ | -⅛ |

Price data supplied by Telekurs

Yearly highs and lows for NYSE reflect the period from Jan 1 1996. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration. Sales figures are unofficial.

d-new yearly low. P/E price-earnings ratio. sls-sales. u-new yearly high. x-ex-dividend or ex-rights. yld-yield. z-sales in full.

§ Dealings suspended.



# AMEX PRICES

4 pm close July 3

[illegible]



# NASDAQ NATIONAL MARKET

4 pm close July 3

[illegible]

**AMERICA**

# Broad market down as techs drop continues

## Wall Street

US share prices slipped in quiet trading as investors awaited news about monetary policy from the Federal Reserve's Open Market Committee meeting, *writes Lisa Bransten in New York.*

At 1 pm, the Dow Jones Industrial Average was 34.36 weaker at 5,686.02, the Standard & Poor's 500 had fallen 3.14 to 670.47 and the American Stock Exchange composite had lost 0.13 at 579.43.

NYSE volume was just 191m shares as investors reserved their positions ahead of a statement from the Fed, expected at about 2:15 pm. Most economists did not expect the Fed to raise interest rates this week, but some stronger than expected data earlier this week on business activity in June and new home purchases in May led to some uncertainty.

The market will be closed today and open for a half day tomorrow in observance of Independence Day.

Technology shares continued the drop, begun on Tuesday, amid continued fears about profitability. The Nasdaq composite, which is weighted towards the technology sector, declined 7.13 to 1,184.02 and the Pacific Stock Exchange technology index was 0.8 per cent lower.

Computer makers and software companies were among the hardest hit sectors. Digital Equipment, which put out a profits warning that helped to spark Tuesday's slide, tacked a loss of $1⅝ on to the $5⅝ it fell on Tuesday, bringing the shares to $39¾. Hewlett-Packard shed $1⅞ to $95¾.

Apple Computer lost $1¼ or 6 per cent at $19⅞ on reports that sales of the company's Macintosh computers were much lower than analysts had expected. Internet-related shares also lost ground.

Railroad shares rose on hopes that the Surface Transportation Board would approve the merger of Union Pacific and Southern Pacific Rail to create the largest railroad in the US. Shares in Southern Pacific were up $1¼ or 5 per cent at $28 and Union Pacific was $1⅞ or 2 per cent stronger at $73⅞ before trading was halted for the board to make its ruling. After trading was temporarily suspended in the shares, the STB voted unanimously for the merger.

## Canada

Toronto was slightly stronger in thin midsession trade ahead of news from the US FOMC meeting.

The TSE 300 composite index was 8.44 up by noon at 5,069.90 in volume of 31m shares.

## SOUTH AFRICA

Gold shares finished firmly above their starting prices in Johannesburg, although they came off their best levels towards the end as profit-taking emerged.

Analysts forecast a continuation of the theme today ahead of what are expected to be upbeat second-quarter gold results in coming days.

Industrial shares failed to impress, hovering around opening levels and dipping towards the close on selling.

The overall index finished 22.0 higher at 6,913.7, industrials eased 1.7 to 8,188.8 and golds rose 48.1 to 1,819.7.

Gold Fields advanced R4 to R135, Kloof was up R2 at R46.50, Loraine rose 70 cents to R17.20, Eastvaal gained 20 cents at R7.36 and Freegold surged R2.40 to R45.15.

**EUROPE**

# Individual excitements on Paris bourse

Broad market excitement was lacking in PARIS, with the CAC-40 index closing just 2.18 higher at 2,113.98 in turnover of FFr5.6bn. But it more than made up for this among individual shares, where takeover and other corporate news, broker downgrades and government initiatives took a hand.

In retailing, Docks de France came back from suspension and moved up FFr143 to FFr1,233, suggesting that the the FFr1,250 a share bid from Auchan, although the Docks management had described the bid as inadequate.

Peugeot and Renault lost FFr3 to FFr658 and FFr1.10 to FFr130.40, as the broker Chevreux de Virieu cut its profits estimates for the carmakers.

The media, advertising and travel group Havas fell FFr10.50 to FFr402.10 on the combination of one broker downgrade, a switching advice by another and a court case by a former director of the advertising unit.

Remy Cointreau fared worse, losing another FFr6, or 4.2 per cent, at FFr138 on Tuesday's decision to postpone the publication of its annual results. But the announcement that France will ban the use of asbestos from next January 1 lifted the building group GTM-Entrepose by FFr9 to FFr347.

ZURICH moved ahead to another all-time high but Tuesday's stars, CS Holding and UBS, pulled back as they encountered profit-taking.

The SMI index overcame early weakness to close 6.2 ahead at 3,757.0. CS Holding, up 12 per cent on Monday on its restructuring plans, gave back SFr1.50 at SFr133. UBS confirmed a recent upgrade on the CS stock and raised the earnings forecasts for 1997 and 1998. UBS itself retreated SFr15 to SFr1,265.

Elektrowatt, in which CS holds a 44.9 per cent stake, gave up SFr8 at SFr475. The shares advanced 5 per cent on Tuesday after CS said that it planned to divest its non-core businesses.

Among insurers, Winterthur profited from speculation that it would benefit from closer co-operation with CS Holding and rose SFr21 to SFr764.

Swiss Re, however, shed another SFr16 to SFr1,249 in a continued response to the planned departure of its CEO, Mr Lukas Mühlemann, to CS Holding. However, Union Bancaire Privée, the Geneva-based private bank, reiterated its recommendation on Swiss Re and set a target price of SFr1,500 a share by the end of the year.

Nestlé shot forward SFr27 to SFr1,449, having overcome strong resistance around SFr1,429.

FRANKFURT, once again, had the opportunity to consider its recent penchant for medium-capitalisation stocks. The M-Dax index lost 0.7 per cent while the Dax 30 rose 1.00 to an Ibis-indicated 2,566.32.

Turnover fell from DM7.4bn to DM6.3bn. In mid-caps, Jungheinrich prefs fell another DM4 to DM224, after Tuesday's 13.3 per cent slide on the forklift maker's forecast drop in net profits this year; Escada prefs by DM7 to DM252 on lower half-year profits from the fashion house; and Hornbach prefs by DM11 to DM122 on profits setbacks from the do-it-yourself supplier for 1995-96, and for the first quarter of 1996-97.

Back among the Dax 30, Commerzbank, the biggest creditor to Escom, which filed for protection yesterday, moved very little. It closed 50 pfgs lower at DM314 after it said that it did not expect earnings to be hit by the computer group's problems. Lufthansa dipped DM3 to DM218 on first-half profits of DM100m pre-tax, better than expected but 47 per cent down from a year ago.

MILAN featured a 6.5 per cent rebound in Olivetti in otherwise quiet trade, awaiting tomorrow's June inflation data. The Comit index eased 2.06 to 655.04, but the real-time Mibtel index picked up from a low of 10,413 to finish 16 higher at 10,471.

Olivetti rose L54.1 to L886.2 in a further response to Tuesday's announcement of strong growth in new mobile telephone subscribers at Omnitel. Expectations also grew yesterday that the head of Omnitel, Mr Francesco Caio, was likely to take over as Olivetti's group managing director from Mr Corrado Passera, who left last week for Ambroveneto.

Eni, the energy group which has proved a recent market favourite, lost L207 to L7,693 on profit-taking.

AMSTERDAM, similar to Frankfurt and Paris, was broadly flat with some individual movement. The AEX index rose 0.86 to 560.31.

One of the biggest winners was the trading group Hagemeyer, bought for growth and rising Fl 6.50 to Fl 125. Nutricia, up Fl 3.30 to Fl 185.80, came into a similar category, while Océ van der Grinten, the printers and copiers group, put on Fl 3.30 at Fl 178.80 ahead of today's annual results, and following a bullish ING Barings report last week.

STOCKHOLM was weighed down by further losses in Astra in thin summer trade and the Affärsvärlden general index slipped 4.4 to 1,990.6.

Astra, downgraded by Lehman Brothers on Monday, fell SKr4.50 to SKr281.50, extending its loss since the start of the week to 3.9 per cent. Analysts offered various explanations. One said that technical support at SKr285 had been broken, while another suggested that Volvo's planned disposal of 46m shares in the rival drug company Pharmacia & Upjohn had weighed on Astra. P&U shadowed Astra with a SKr1.50 fall to SKr298.

COPENHAGEN survived late profit-taking to end with the KFX index at an all-time closing high, just 0.34 up at 112.17, compared with the 118.13 of February 2, 1994. ISTANBUL achieved the same end, but with a 2.1 per cent gain. The composite index put on 1,512.73 at 72,494.36.

**FT-SE Actuaries Share Indices**

| Jul 3 | | | | | | | THE EUROPEAN SERIES | | |
|---|---|---|---|---|---|---|---|---|---|
| Hourly changes | Open | 10.30 | 11.00 | 12.00 | 13.00 | 14.00 | 15.00 | Close |
| FT-SE Eurotrack 100 | 1702.27 | 1702.32 | 1703.05 | 1703.31 | 1702.98 | 1702.84 | 1702.88 | 1703.22 |
| FT-SE Eurotrack 200 | 1735.24 | 1734.58 | 1734.89 | 1734.92 | 1735.72 | 1735.17 | 1735.40 | 1735.19 |

| | Jul 2 | Jul 1 | Jun 28 | Jun 27 | Jun 26 |
|---|---|---|---|---|---|
| FT-SE Eurotrack 100 | 1706.94 | 1701.31 | 1698.43 | 1692.62 | 1698.10 |
| FT-SE Eurotrack 200 | 1738.88 | 1731.21 | 1726.44 | 1716.58 | 1723.40 |

Base value 1000 (26/10/90); High/day: 100 - 1704.29; 200 - 1736.77 Low/day: 100 - 1700.71 200 - 1733.58 † Partial

*Written and edited by William Cochrane and Michael Morgan*

# Telebras leads São Paulo ahead

São Paulo continued to move ahead on demand for Telebras after its announcement of higher earnings. By midsession the Bovespa index was 558.29 higher at 63,013. Shares in the state-owned telecommunications holding company rose R$1.45 to R$74.50 after it announced January to May net profits of R$1.4bn.

CARACAS moved forward, supported by falling interest rates and the prospect of final approval for Venezuela's IMF accord on July 12.

The IBC index, adding to Tuesday's 1.3 per cent rise, was 26.94 higher by midsession at 4,417.40.

MEXICO CITY was unable to build on the rally that began just before Tuesday's closing bell, as investors became cautious pending a Fed announcement on US interest rates.

The IPC index eased 13.42 to 3,185.49, although analysts said that the market appeared to have shaken off fears over a possible armed conflict in Guerrero state.

**EMERGING MARKETS: IFC WEEKLY INVESTABLE PRICE INDICES**

| Market | No. of stocks | Dollar terms June 28 1996 | Dollar terms % Change over week | Dollar terms % Change on Dec '95 | Local currency terms June 28 1996 | Local currency terms % Change over week | Local currency terms % Change on Dec '95 |
|---|---|---|---|---|---|---|---|
| Latin America | (248) | 535.57 | +0.6 | +13.5 | | | |
| Argentina | (31) | 924.47 | +0.7 | +15.4 | 566,444.74 | +0.7 | +15.3 |
| Brazil | (68) | 365.39 | -0.6 | +19.7 | 1,372.52 | -0.5 | +23.6 |
| Chile | (43) | 739.57 | +1.1 | -1.2 | 1,217.32 | +1.4 | -0.2 |
| Colombia[1] | (15) | 601.14 | -3.2 | -0.5 | 1,136.70 | -3.1 | +8.3 |
| Mexico | (65) | 530.95 | +1.9 | +17.2 | 1,734.90 | +2.0 | +15.2 |
| Peru[2] | (21) | 217.45 | +2.4 | +10.3 | 324.55 | +2.2 | +16.9 |
| Venezuela[3] | (5) | 505.50 | +0.6 | +51.2 | 5,452.82 | +0.2 | +108.9 |
| Asia | (632) | 264.16 | +0.3 | +13.8 | | | |
| China[4] | (24) | 59.27 | -1.0 | +9.6 | 62.27 | -0.9 | +9.6 |
| South Korea[5] | (145) | 106.61 | -3.6 | -15.3 | 113.69 | -3.1 | -11.5 |
| Philippines | (35) | 327.31 | +2.5 | +26.1 | 414.33 | +2.5 | +26.0 |
| Taiwan, China[6] | (83) | 150.14 | +3.4 | +33.1 | 155.12 | +3.1 | +34.3 |
| India[7] | (76) | 103.39 | -2.4 | +28.7 | 129.36 | -1.4 | +28.9 |
| Indonesia[8] | (44) | 121.82 | +4.7 | +11.1 | 154.09 | +4.7 | +13.1 |
| Malaysia | (123) | 317.61 | -0.8 | +17.1 | 292.54 | -0.9 | +15.1 |
| Pakistan[9] | (25) | 288.06 | -0.2 | +17.9 | 456.42 | -0.0 | +21.1 |
| Sri Lanka[10] | (5) | 99.61 | -1.3 | -4.3 | 120.62 | -1.6 | -0.2 |
| Thailand | (72) | 351.12 | +0.9 | -6.6 | 354.13 | +1.1 | -5.8 |
| Euro/Mid East | (239) | 144.50 | +1.2 | +2.0 | | | |
| Czech Rep | (5) | 72.00 | -1.8 | +20.0 | 65.88 | -2.4 | +23.8 |
| Greece | (47) | 244.74 | +1.6 | +1.3 | 399.15 | +1.4 | +3.1 |
| Hungary[11] | (8) | 174.96 | +3.6 | +77.8 | 316.19 | +3.8 | +95.4 |
| Jordan | (8) | 166.09 | -1.5 | -10.1 | 248.09 | -1.5 | -10.0 |
| Poland[12] | (22) | 736.08 | +6.1 | +72.6 | 1,260.01 | +5.9 | +90.3 |
| Portugal | (26) | 130.45 | +1.2 | +12.7 | 140.50 | +1.0 | +18.2 |
| South Africa[13] | (63) | 237.97 | +0.6 | -7.8 | 212.78 | -0.2 | +9.5 |
| Turkey[14] | (54) | 148.52 | +4.2 | +42.1 | 5,732.00 | +4.8 | +91.8 |
| Zimbabwe[15] | (5) | 373.46 | -1.2 | +36.0 | 543.53 | -1.0 | +44.2 |
| Composite | (1118) | 305.07 | +0.6 | +10.6 | | | |

*Indices are calculated at end-week, and weekly changes are percentage movement from the previous Friday. Base date: Dec 1988=100 except those noted which are: (1)Feb 1 1991; (2)Dec 31 1992; (3)Jan 5 1990; (4)Dec 31 1992; (5)Jan 3 1992; (6)Jan 4 1991; (7)Nov 5 1992; (8)Sep 28 1990; (9)Mar 1 1991; (10) Dec 31 1992; (11)Dec 31 1992; (12)Dec 31 1992; (13)Dec 31 1992; (14)Dec 31 1992; (15)Aug 2 1993; (16) July 2 1993.*

**The Philippine stock exchange soared to an all-time high yesterday, the composite index rising by 46.05 to 3,351.7, more than 10 points clear of its previous best in January 1994, *writes Edward Luce.* Analysts attributed the surge, which has lifted the market by 28 per cent since January, to strong corporate earnings growth – expected to be 25 per cent for 1996 – and general macroeconomic buoyancy.**

**Volume, driven mainly by foreign buying, hit 2.65bn pesos ($103m) yesterday, the property index outstripping others as it rose by 1.7 per cent. News that the Philippine Long Distance Telephone Company, the country's most closely watched ADR in New York, had closed $2.25 higher at $60.875 overnight also lifted market sentiment. PLDT's Manila shares rose 40 pesos to 1,610 pesos. "We expect the bull run to continue towards the end of the year," said Mr Noel Reyes, chief researcher at Anscor Securities in Manila. "The consensus appears to be that the market will hit 4,000 by December." Rumours that inflation, which has been in double digits since last September, would fall to below 10 per cent for June also fuelled market optimism. Analysts say that lower food prices will boost food stocks and personal consumption expenditure.**

**At a price/earnings ratio of about 23, Manila is more expensive than other south east Asian bourses, but growth in earnings per share is running higher at an average of 25 per cent – a good indicator of a market's attraction. Brokers expect the buying to continue tomorrow as the market returns to work after today's public holiday.**

**ASIA PACIFIC**

# Rate cuts spur Bangkok 2.3 per cent higher

Local and foreign bargain hunters returned to BANGKOK, encouraged by this week's lending rate cuts. The SET index closed 29.03, or 2.3 per cent, higher at 1,268.20 in turnover of Bt7.3bn.

Foreign buyers took advantage of the market's substantial losses in the past two weeks. Large-capitalisation stocks fared well, with Bangkok Bank, first in the active stocks list, rising Bt8 to Bt248. Finance One appreciated Bt6 to Bt134 and Siam Cement Bt24 to Bt1,180.

## Tokyo

Caution over interest rates lingered, but technical trading led share prices marginally higher, *writes Emiko Terazono in Tokyo.*

The Nikkei 225 average rose 31.05 to 22,379.02, after moving between 22,247.59 and 22,389.57. The dollar's rise above the Y110 mark had a limited impact on share prices and failed to spark large-lot buying interest.

Volume totalled 305m shares, against 292m. The Topix index of all first section stocks shed 1.09 to 1,698.34 and the Nikkei 300 lost 0.04 to 315.05. Declines led advances by 570 to 412, with 239 issues unchanged.

In London the ISE/Nikkei 50 index put on 3.07 at 1,514.07.

Nisshin Steel, a stainless steel maker, was the most active issue of the day, falling Y7 to Y410. Traders said that European institutions, looking to shift their portfolios, were taking profits on the Nippon Steel affiliate.

The dollar's rise above the Y110 level, for the first time since January 1994, helped car companies reliant on exports. Toyota Motor gained Y30 to Y2,670 and Honda Motor added Y10 at Y2,830. Nissan Motor, however, finished unchanged at Y861.

High-technology stocks were mixed. Sony fell Y70 to Y7,130 on small-lot profit-taking by domestic and foreign institutions. Hitachi lost Y10 to Y1,020 but Toshiba gained Y14 to Y775 and NEC advanced Y20 to Y1,200.

Nichiei, the real estate developer which fell sharply on rumours of financial problems at its non-bank finance subsidiary, rallied Y10 to Y451.

Oil refiners, which rely on imports, were weaker on the dollar's strength. Nippon Oil lost Y5 to Y723 and Cosmo Oil declined Y5 to Y685.

Individual investors dabbled in speculative issues. Nihon Nosan Kogyo, the feed manufacturer, gained Y44 to Y539 and Sumitomo Precision Products climbed Y20 to Y1,150.

In Osaka, the OSE average fell 77.71 to 23,547.60, in volume of 25.6m shares.

## Roundup

A steep rise in petroleum prices, announced by the new government late on Tuesday, drove BOMBAY 2.4 per cent lower. The BSE-30 index finished 91.44 down at 3,656.03 on concern that the rise would stoke inflation and hit corporate profits.

Among key stocks, Reliance fell Rs16.25, ACC, the cement maker lost Rs67 to Rs2,296 and Hindalco, the aluminium group, eased Rs37 to Rs1,187.75.

AUCKLAND said that bad political and inflation news had been factored into the market, and that prices now represented good value. The NZSE-40 index ended 22.19 firmer at 2,128.40.

KUALA LUMPUR featured a 59 per cent surge in Sarawak Concrete, which prompted the bourse authorities to place trading restrictions on the stock from today. The company said that it was unable to explain the surge, which took the shares up M$6 to M$16.10 in a weak market that saw the composite index down 4.75 to 1,135.07.

TAIPEI dropped on extended profit-taking. The weighted index ended 62.42 down at 6,435.41 in active turnover of T$49.09bn. Financials and plastics receded 1.3 and 1.2 per cent respectively, with Formosa Plastics down T$2.50 at T$58.50 and Kaohsiung Business Bank by T$3 to T$60.50.

SYDNEY followed a fast fading futures market, blamed on the unwinding of positions in relation to financial year-end trade, and saw the All Ordinaries index 20.5 lower at 2,235.8 in turnover of A$684m.

However, weak metals prices were also a factor. WMC, the gold and nickel miner, slid 22 cents to A$8.78 as investors reassessed their view of its prospects.



**FT/S&P ACTUARIES WORLD INDICES**

The FT/S&P Actuaries World Indices are owned by FT-SE International Limited, Goldman, Sachs & Co. and Standard & Poor's. The indices are compiled by FT-SE International and Goldman Sachs in conjunction with the Faculty of Actuaries and the Institute of Actuaries. NatWest Securities Ltd. was a co-founder of the indices.

| NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of lines of stock | TUESDAY JULY 2 1996 US Dollar Index | Day's Change % | Pound Sterling Index | Yen Index | DM Index | Local Currency Index | Local % chg on day | Gross Div. Yield | MONDAY JULY 1 1996 US Dollar Index | Pound Sterling Index | Yen Index | DM Index | Local Currency Index | DOLLAR INDEX 52 week High | 52 week Low | Year ago (approx) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Australia (79) | 201.65 | -0.1 | 192.11 | 140.39 | 160.08 | 171.34 | 0.5 | 4.30 | 201.80 | 192.32 | 139.78 | 159.84 | 170.44 | 212.18 | 183.30 | 163.98 |
| Austria (24) | 180.48 | -0.5 | 171.95 | 125.65 | 143.28 | 143.22 | -0.3 | 1.96 | 181.44 | 172.91 | 125.67 | 143.71 | 143.65 | 196.96 | 168.11 | 197.48 |
| Belgium (27) | 211.25 | 0.3 | 201.26 | 147.07 | 167.70 | 163.74 | 0.6 | 4.07 | 210.51 | 200.62 | 145.81 | 166.73 | 162.79 | 215.81 | 186.06 | 194.40 |
| Brazil (28) | 183.07 | 1.3 | 174.42 | 127.46 | 145.34 | 338.74 | 1.4 | 1.92 | 180.73 | 172.23 | 125.18 | 143.15 | 334.00 | 183.07 | 123.97 | 130.76 |
| Canada (120) | 160.51 | 0.3 | 152.92 | 111.75 | 127.42 | 158.50 | 0.4 | 2.28 | 160.05 | 152.53 | 110.86 | 126.77 | 157.93 | 165.12 | 134.14 | 143.07 |
| Denmark (30) | 306.49 | 0.6 | 291.99 | 213.38 | 243.31 | 245.21 | 0.8 | 1.87 | 304.70 | 290.38 | 211.05 | 241.34 | 243.27 | 306.49 | 276.53 | 276.53 |
| Finland (23) | 194.97 | 0.4 | 185.75 | 135.74 | 154.78 | 191.39 | 1.0 | 2.61 | 194.17 | 185.05 | 134.49 | 153.79 | 189.45 | 276.11 | 171.73 | 236.22 |
| France (96) | 196.14 | -0.5 | 186.86 | 136.55 | 155.71 | 158.83 | -0.3 | 3.03 | 197.14 | 187.87 | 136.54 | 156.14 | 159.33 | 198.39 | 167.70 | 181.35 |
| Germany (59) | 172.17 | -0.1 | 164.03 | 119.87 | 136.68 | 136.68 | 0.2 | 1.82 | 172.26 | 164.16 | 119.31 | 136.44 | 136.44 | 174.38 | 155.86 | 157.49 |
| Hong Kong (59) | 433.09 | 0.6 | 412.61 | 301.52 | 343.82 | 430.41 | 0.6 | 3.32 | 430.58 | 410.35 | 298.24 | 341.04 | 427.91 | 451.19 | 348.81 | 359.51 |
| Indonesia (27) | 215.21 | -0.4 | 205.03 | 149.83 | 170.85 | 307.21 | -0.3 | 1.48 | 216.06 | 205.91 | 149.65 | 171.13 | 308.31 | – | – | – |
| Ireland (16) | 286.72 | -0.1 | 273.16 | 199.61 | 227.61 | 252.90 | 0.1 | 3.39 | 286.90 | 273.42 | 198.72 | 227.24 | 252.78 | 290.82 | 235.88 | 296.59 |
| Italy (59) | 80.75 | -0.5 | 76.93 | 56.22 | 64.10 | 92.70 | -0.3 | 2.38 | 81.13 | 77.31 | 56.19 | 64.26 | 93.01 | 84.53 | 67.22 | 73.33 |
| Japan (481) | 154.82 | -1.1 | 147.50 | 107.79 | 122.91 | 107.79 | -0.6 | 0.71 | 156.51 | 149.16 | 108.41 | 123.97 | 108.41 | 164.68 | 137.75 | 142.49 |
| Malaysia (107) | 559.79 | -0.1 | 533.32 | 389.73 | 444.40 | 537.80 | 0.0 | 1.67 | 560.27 | 533.94 | 388.07 | 443.76 | 537.72 | 585.09 | 425.77 | 530.02 |
| Mexico (18) | 1230.48 | 0.8 | 1172.29 | 856.67 | 976.84 | 10206.47 | 0.4 | 1.30 | 1220.22 | 1162.87 | 845.17 | 966.47 | 10169.00 | 1325.65 | 791.99 | 1028.31 |
| Netherland (19) | 295.77 | -0.3 | 281.78 | 205.91 | 234.80 | 231.24 | 0.0 | 3.12 | 296.54 | 282.60 | 205.39 | 234.87 | 231.26 | 299.69 | 245.79 | 249.89 |
| New Zealand (15) | 80.69 | 0.5 | 76.88 | 56.18 | 64.06 | 62.56 | 0.6 | 4.34 | 80.27 | 76.50 | 55.60 | 63.58 | 62.21 | 85.49 | 76.94 | 78.86 |
| Norway (35) | 254.09 | 0.3 | 242.08 | 176.90 | 201.72 | 224.64 | 0.5 | 2.02 | 253.44 | 241.53 | 175.54 | 200.74 | 223.64 | 256.94 | 222.24 | 233.14 |
| Philippines (22) | 216.46 | 0.7 | 206.23 | 150.70 | 171.84 | 262.47 | 0.7 | 0.54 | 214.96 | 204.86 | 148.89 | 170.26 | 260.51 | – | – | – |
| Singapore (44) | 415.17 | 0.0 | 395.53 | 289.04 | 329.59 | 270.18 | 0.1 | 1.41 | 415.02 | 395.51 | 287.48 | 328.71 | 269.86 | 465.21 | 355.81 | 383.37 |
| South Africa (44) | 362.93 | 0.6 | 345.76 | 252.67 | 288.12 | 343.52 | 0.6 | 2.11 | 360.74 | 343.79 | 249.86 | 285.73 | 341.45 | 437.76 | 339.37 | 343.41 |
| Spain (37) | 182.69 | -0.6 | 174.05 | 127.19 | 145.03 | 177.60 | -0.5 | 3.23 | 183.85 | 175.21 | 127.34 | 145.61 | 178.53 | 183.85 | 145.15 | 147.24 |
| Sweden (46) | 355.94 | -0.7 | 339.11 | 247.81 | 282.57 | 353.11 | 0.1 | 2.41 | 358.40 | 341.56 | 248.24 | 283.87 | 352.59 | 360.77 | 269.58 | 269.58 |
| Switzerland (38) | 245.00 | 0.3 | 233.42 | 170.57 | 194.50 | 190.21 | 0.6 | 1.56 | 244.29 | 232.80 | 169.20 | 193.48 | 189.16 | 252.34 | 181.24 | 201.52 |
| Thailand (45) | 167.46 | 0.6 | 159.54 | 116.58 | 132.94 | 165.02 | 0.7 | 2.00 | 166.41 | 158.59 | 115.26 | 131.80 | 163.95 | 193.95 | 146.74 | 170.41 |
| United Kingdom (200) | 234.84 | 0.1 | 223.73 | 163.49 | 186.43 | 223.73 | 0.0 | 4.17 | 234.72 | 223.69 | 162.57 | 185.91 | 223.69 | 237.43 | 213.27 | 213.27 |
| USA (627) | 274.22 | -0.3 | 261.25 | 190.92 | 217.70 | 274.22 | -0.3 | 2.15 | 275.06 | 262.13 | 190.51 | 217.86 | 275.06 | 276.47 | 222.54 | 222.54 |
| Americas (793) | 250.46 | -0.2 | 238.61 | 174.37 | 198.83 | 210.56 | -0.2 | 2.16 | 251.09 | 239.29 | 173.91 | 198.87 | 211.08 | 252.43 | 203.80 | 203.80 |
| Europe (711) | 211.60 | -0.1 | 201.59 | 147.31 | 167.98 | 185.13 | 0.1 | 3.06 | 211.82 | 201.86 | 146.71 | 167.77 | 185.02 | 211.82 | 188.21 | 188.21 |
| Nordic (136) | 305.81 | -0.2 | 291.35 | 212.91 | 242.77 | 266.69 | 0.4 | 2.31 | 306.57 | 292.16 | 212.34 | 242.82 | 265.65 | 306.61 | 261.13 | 261.37 |
| Pacific Basin (879) | 167.83 | -0.8 | 159.89 | 116.84 | 133.23 | 118.96 | -0.4 | 1.16 | 169.22 | 161.27 | 117.21 | 134.03 | 119.31 | 177.01 | 148.96 | 152.76 |
| Euro-Pacific (1590) | 185.95 | -0.5 | 177.16 | 129.46 | 147.62 | 143.99 | -0.2 | 2.06 | 186.86 | 178.08 | 129.43 | 148.00 | 144.24 | 190.57 | 166.51 | 167.44 |
| North America (747) | 267.21 | -0.3 | 254.57 | 186.03 | 212.13 | 265.50 | -0.3 | 2.16 | 267.95 | 255.35 | 185.59 | 212.23 | 267.22 | 269.52 | 217.62 | 217.62 |
| Europe Ex. UK (511) | 193.64 | -0.2 | 184.48 | 134.81 | 153.72 | 161.36 | 0.1 | 2.46 | 194.00 | 184.88 | 134.37 | 153.66 | 161.23 | 194.16 | 169.65 | 170.25 |
| Pacific Ex. Japan (398) | 288.56 | 0.2 | 274.91 | 200.90 | 229.08 | 249.70 | 0.4 | 2.95 | 287.93 | 274.40 | 199.43 | 228.06 | 248.71 | 296.88 | 243.59 | 250.53 |
| World Ex. US (1800) | 187.28 | -0.4 | 178.43 | 130.39 | 148.68 | 149.47 | -0.1 | 2.08 | 188.07 | 179.23 | 130.26 | 148.96 | 148.66 | 191.55 | 167.38 | 168.38 |
| World Ex. UK (2227) | 212.11 | -0.4 | 202.08 | 147.67 | 168.39 | 180.54 | -0.2 | 1.90 | 212.98 | 202.97 | 147.52 | 168.69 | 180.94 | 213.05 | 182.12 | 182.12 |
| World Ex. Japan (1946) | 246.86 | -0.2 | 235.18 | 171.86 | 195.97 | 233.73 | -0.1 | 2.50 | 247.25 | 235.63 | 171.25 | 195.83 | 233.95 | 247.56 | 208.79 | 208.79 |
| The World Index (2427) | 214.17 | -0.4 | 204.04 | 149.11 | 170.02 | 184.67 | -0.2 | 2.10 | 214.96 | 204.86 | 148.89 | 170.26 | 185.06 | 214.96 | 184.85 | 184.85 |


Latest prices were unavailable for this edition.

# ITALY

## At last, the chance of a greater role

The Olive Tree coalition raises hopes of political stability and a greater presence on the EU stage. **Robert Graham** asks what must be done to fulfil them

After years of turbulence, Italy now has the chance to enjoy a period of stable government.

This affirmation would sound banal had not Italians been through three general elections in four years and seen the previous 10 governments surviving an average of 10 months each. As it is, there is a palpable sense of relief at the prospect of the six-week-old centre-left "Olive Tree" coalition, headed by Mr Romano Prodi, surviving for the foreseeable future.

The centre-left coalition has a fragile majority in parliament that belies its inherent strength. The opposition is thoroughly demoralised by its defeat in the April general elections and lacks any idea of how to proceed now it is not in office. Also in the government's favour is an electorate yearning to be left untroubled by politics and political confrontation.

The field is clear for Mr Prodi and his team to make an important contribution towards modernising the Italian state and to fulfil their electoral pledge of playing a more dynamic role at the heart of Europe.

The country is on the brink of entering a virtuous circle, whereby sound government permits tight budgetary control; which in turn allows interest rates to drop, so lessening the cost of debt service that is the single biggest cause of Italy's financial problems. If this government fails, it will largely have itself to blame.

The start has been slow and hesitant with too many cabinet members speaking out of turn. Mr Prodi has retained his affable good humour. At times he has been low key, almost to the point of soporific, eschewing the "100 days of action" rhetoric to which new governments are so prone.

But the administration is over the first hurdle. At home, a tough L16,000bn package of corrective measures has been introduced to hold the 1996 budget deficit to its target of 5.9 per cent of GDP. In foreign policy, the Italian EU presidency is being handed over to Ireland after a confident performance at the European summit in Florence. This has helped erase the memory of a weak presidency, which was the inevitable result of the caretaker nature of the previous administration of Mr Lamberto Dini.

The government had little time to impress its personality on the Inter-Governmental Conference that opened in Turin in March to prepare Europe's political and monetary architecture. But Mr Prodi has nailed his credentials to monetary and political union.

Answering questions at the European University in Florence, he observed: "Italy has been an industrial giant but a political pygmy. This we want to change." He wants Italy to stop punching below its weight.

The financial markets have sensed that Italy is changing for the better, promising financial orthodoxy and anxious for early re-entry into the European Exchange Rate Mechanism (ERM). The lira has strengthened considerably, gaining some 4 per cent against the D-Mark since the elections.

"The Prodi government is shaping up well and the markets feel the key portfolios are in safe hands," observes a leading analyst.

The cabinet line-up is one of the most experienced in Europe. This applies especially to those ministries with obvious international dimensions. The treasury and budget ministry has been combined under Mr Carlo Azeglio Ciampi, the long-time governor of the Bank of Italy and premier from 1993-94. The presence of the veteran central banker in this "super-ministry" is a clear signal of the government's intentions to push Italy towards compliance with the tough convergence criteria for monetary union under the Maastricht Treaty.

The foreign ministry is being handled by Mr Dini, the former director-general of the Bank of Italy, who has long experience of the International Monetary Fund, and who proved himself an astute politician as Mr Prodi's predecessor. In his brief sojourn at the foreign ministry, he has made a significant contribution to the resolution of the EU crisis caused by the ban on British beef.

Defence is under Mr Beniamino Andreatta, the economist whose former cabinet posts include those of treasury and foreign minister. The interior ministry has gone to Mr Giorgio Napolitano, an ex-communist and former speaker of the chamber of deputies, well known on the international affairs circuit. His appointment has highlighted the extent of political change: this portfolio has always been jealously guarded by the Christian Democrat-schooled establishment. Elsewhere, Mr Antonio Maccanico, a long-time servant of state who ran the prime minister's office under the Ciampi government, is at the ministry of posts and telecommunications.

With so many heavyweights around, competing egos are bound to clash, and Mr Prodi risks looking a lightweight. His own direct political experience has been as head of the Olive Tree alliance since it was formed in February 1995. Otherwise, his career has been split between being an economics professor, running his own think-tank at Bologna, and managing IRI, the giant state holding company.

Mr Prodi enjoys legitimacy because he was the candidate for the premiership and helped broaden the appeal of the Olive Tree alliance to voters in the centre, so essential for winning any electoral contest in present-day Italy. He has been able to bring into the cabinet several of his own appointees – the public works ministry, for instance, has gone to Mr Antonio Di Pietro, the former anti-corruption magistrate from Milan.

But his position is weakened by the lack of a real political base. The Olive Tree is a heterogeneous alliance dominated by the Party of the Democratic Left (PDS), the social democrat heir to the old Communist Party (PCI). Behind the scenes, Mr Massimo D'Alema, the PDS leader and the best tactician in Italian politics, is the real force. This has been evident in the ministerial appointments and in some of the first nominations to state institutions and companies, where the PDS, albeit with competent people, is determined to exercise government patronage.

In such circumstances, the decision-making process is inevitably complex, even if the coalition partners are agreed on common objectives. Mr Prodi is obliged to accommodate the PDS without alienating his own supporters. Simultaneously, he must keep happy the influential Popular Party (PPI), formed from the Christian Democrat left, numerous ex-Socialists and the ever querulous Greens. Furthermore, to be assured of a viable parliamentary majority, the new premier must also court the 34 deputies of Reconstructed Communism (RC), who still pretend to believe in the marxist millennium.

The agenda facing the government is vast. So many issues have accumulated untouched or half-completed over the years. The main priorities, most of which are tackled in depth elsewhere in this survey, are:

- Reducing the budget deficit and cutting the huge stock of Italy's debt.
- Cutting back the role of the state in the economy through accelerated privatisation.
- Reforming the constitution to provide a stronger executive and introduce a degree of federalism.
- Tackling the growing divide between the rich industrial north and the stagnant state-aided south.
- Streamlining the judicial system and tackling the sensitive issue of the corruption investigations that brought down the old political system.
- Overhauling the public administration to produce a more cost-effective and user-friendly civil service.
- Modernising the educational system to provide a better trained workforce.
- Introducing a coherent broadcasting system to prevent conflict of interest and ensure the impartiality of public TV.

Mr Prodi has begun by concentrating on economic issues as these are the most urgent. In framing the 1996 budget last year against a backdrop of 3 per cent growth, an occasion was missed to impose more incisive measures. Mr Prodi now has to introduce a tough package for 1997 when the economy is moving at a slower pace.

This will mean coming up with at least L30,000bn in spending cuts and new revenues – hard to imagine without either cutting welfare benefits or raising taxes, or doing both. Even then, the budget deficit will be around 4 per cent of GDP, or a good percentage point above the Maastricht target.

The treasury wants even bolder gestures at the outset of the administration to bring Italy's fundamentals within the convergence criteria. But the recent conflicts with unions that both the French and German governments have experienced when trying to prune deficit spending has left Mr Prodi wary of requesting heavy sacrifices.

The June mini-budget was clearly aimed at keeping the unions happy. Welfare cuts were avoided, while employers were hit with lower tax breaks on social security contributions and big depositors had to pay higher taxes on certificates of deposit. Confindustria, the industrialists' confederation, screamed foul not so much because the measures hurt but because it feared a government pledged to economic rigour was falling into the unions' pocket.

The accusation at this stage is unjust. The powerful Italian trades unions movement is an important part of the Olive Tree constituency. The unions deserved recognition for having lost out in honouring their side of the bargain of a 1993 tripartite agreement with the employers and government. The agreement pegged wages to projected, not real, inflation (which has proved higher), and means that real earnings have declined. For this reason, the wage deals under negotiation will have a 3 per cent inflation target, not the government's 2.5 per cent figure.

This consensual approach suggests Italy cannot realistically be expected to comply with the Maastricht criteria by the deadline. Indeed, Mr Prodi at Florence admitted as much by saying Italy was not against a core group of countries going ahead with monetary union on time.

The other issue is constitutional reform. The framework for tackling this has to be put in place quickly because any serious change will require at least 18 months to effect.

During the election campaign, the Olive Tree promised to introduce a more federal structure, devolving more fiscal power and administrative control to the regions. The alliance also wants to strengthen the executive, change the excessive bi-cameralism of parliament, and complete reform of the electoral laws. The right-wing alliance under the former premier, Mr Silvio Berlusconi, has a similar programme but puts the emphasis on turning the executive into a French-style semi-presidential system.

Constitutional changes can only come about via a bi-partisan approach because of the two thirds parliamentary majority required. The parties must now decide whether they appoint a special commission of the two houses – as happened in 1993 when the system of proportional representation was reformed – or set up a constituent assembly, insulating discussion of the reforms from normal parliamentary business. The PDS mistrusts the latter option, believing it would lead to the formation of a new centre in Italian politics around the carcass of the Christian Democrats. The waters for a new centrist alliance are already being tested in the wake of the Sicilian regional elections in June, which saw parties linked to the former Christian Democrats pick up a third of the vote.

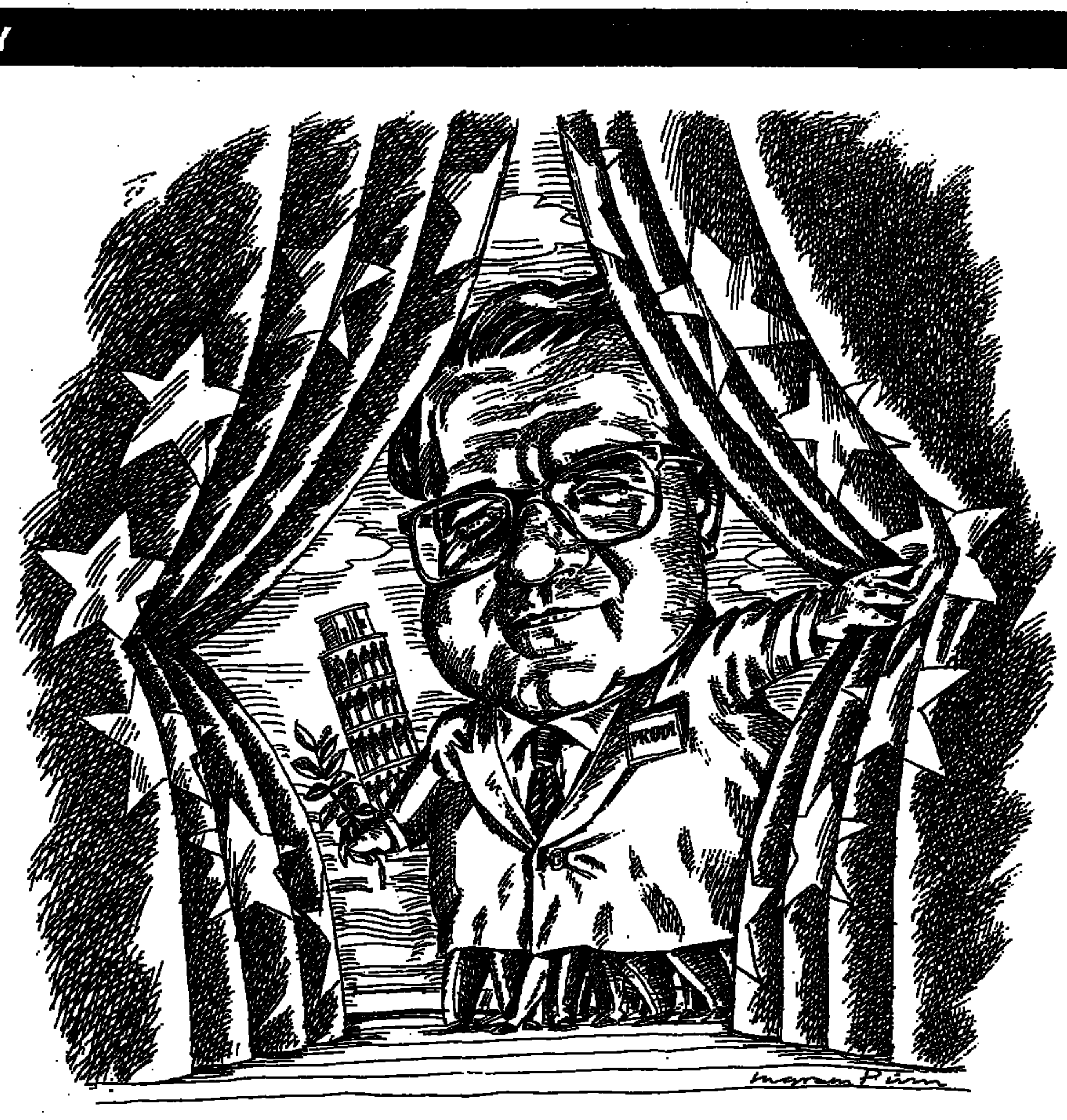
Bi-polar politics have only developed under the first-past-the-post system introduced for 75 per cent of the parliamentary seats in 1994. The concept is far from firmly rooted and the temptation to build a third force in the centre, mediating between left and right in the formation of government, is real though not immediate. The possibility of it happening is one of two elements that will bear heavily on the life of this government.

The second is the fate of Mr Berlusconi and his Forza Italia movement, which accounts for 20 per cent of the vote. Mr Berlusconi has gone some way to settle the damaging conflict of interest between his ownership of the Fininvest business empire and his role as politician. His control of television will become less controversial through the forthcoming flotation of his TV interests, grouped in Mediaset.

However, his judicial problems get ever more complicated. He is currently not only on trial for being involved in bribes to ensure favourable tax inspections of companies in his Fininvest group but also under investigation because of the more serious allegations of falsifying accounts and of illicit dealings by Fininvest.

With a declining grip on the leadership of the right-wing alliance he forged on entering politics in 1994, these problems combine to cast a huge cloud over how long he can be (and will want to be) a politician. If he leaves the scene, Forza Italia will probably disintegrate, so encouraging the formation of a new centrist block that would completely alter the line-up in parliament.

Not surprisingly, Mr D'Alema wants to keep Mr Berlusconi politically alive – at least until the government introduces the 1997 budget and parliament agrees on basic constitutional reforms over the next 18 months.





### KEY FACTS

| | |
|---|---|
| Area | 294,060 sq km |
| Population | 57.2m |
| Head of state | Oscar Luigi Scalfaro |
| Currency | Lira |
| Average exchange rate | 1995 $1=L1,628.7 |
| | 1996 $1=L1,563.9 |

| | 1995 | 1996 |
|---|---|---|
| Total GDP ($bn) | 1,090 | 1,280 |
| Real GDP growth (%) | 3.0 | 2.2 |
| GDP per capita ($) | 19,190 | 22,000 |
| Components of GDP (1994, %) | | |
| Private consumption | 62.6 | N/A |
| Government consumption | 17.3 | N/A |
| Total investment | 17.0 | N/A |
| Exports | 23.8 | N/A |
| Imports | -20.1 | N/A |
| Annual change in: | | |
| Consumer prices (%) | 5.4 | 4.8 |
| Ind. production (%) | 5.5 | 4.0 |
| Avg hourly earnings (%) | 3.1 | 4.8 |
| Unemployment rate (%) | 12.2 | 12.3 |
| Long-term govt. bond yield (%) | 12.2 | 10.5 |
| Reserves minus gold ($bn) | 34.3 | N/A |
| Interest rate | 10.9 | 9.6 |
| Stock mkt index | -6.73 | 12.88 |
| Gen. govt. budget bal. (% GDP) | -8.1 | -6.9 |
| Current acct. balance (% GDP) | -1.7 | 1.7 |
| Current account balance ($bn) | 16.0 | 22.0 |
| Exports ($bn) | 226.0 | 240.0 |
| Imports ($bn) | -185.0 | -196.0 |
| Trade balance ($bn) | 41.0 | 44.0 |
| Main trading partners (1994, %) | Exports | Imports |
| Germany | 19.0 | 19.2 |
| France | 13.1 | 13.6 |
| US | 7.8 | 4.6 |
| UK | 6.5 | 5.7 |
| Spain | 4.8 | N/A |
| Switzerland | 3.8 | 4.7 |
| EU | 53.4 | 56.3 |

(1) Mid year estimate. (2) Year to date. (3) Estimates unless otherwise indicated. (4) Manufacturing. (5) End period. (6) Three-month Treasury Bill rate. (7) Change over year. (8) Share of world trade.
Source: Economist Intelligence Unit, Datastream.

### IN THIS SURVEY


- Domestic problems: a look at the factors that have caused the economy to slow. Plus, what Italy must do to meet the Maastricht convergence criteria — Page 2
- Regional accent: why the government must make closing the gap between north and south a priority — Page 3
- Labour pains: how the 1993 wage agreement has led to tensions with the unions — Page 4
- Against the constitution: what Romano Prodi must do to change a political system in which he holds virtually no executive power — Page 5

- Capital punishment? Why preparations for the Great Jubilee may be bad news for Rome — Page 6

■ **Economy:** by Robert Graham

# Slowdown shakes confidence

## Drops in domestic demand and consumer spending mean forecasts have been revised

If the most optimistic forecasts are correct, Italy's growth will be 1.5 per cent this year. But Confindustria, the industrialists' confederation, believes it may be as little as 0.7 per cent.

The extent to which the economy has slowed during the first half of 1996 has caught everyone by surprise. At the end of last year, the government expected growth to be around 2.4 per cent. This was itself a considerable adjustment from the 3 per cent that had been projected when the annual three-year macro-economic framework was prepared in June 1995.

The government was not alone in miscalculating. This year's OECD country report on Italy talked of conditions being in place for real GDP growth "to stabilise in the region of 2.5 per cent both in 1996 and 1997".

Although official figures have yet to be published for second quarter growth, it is believed they will show that Italy is technically in a recession. However, no-one thinks that the country is heading for a repeat of the 1992-93 crisis. Activity is expected to pick up marginally towards the end of the year and improve in 1997.

**The country is committed to re-entry into the ERM**

Several phenomena have combined this year to slow the economy. Domestic demand, always hesitant in 1995, has failed to gather any momentum, and if anything has begun to decline. This is explained in part by business holding back on investment and stockbuilding until the outcome of the elections was clear and a new government was installed.

At the same time, the sharper slowdown in the domestic market reflected the end of the effect of the tax breaks provided by the Berlusconi government. The so-called Tremonti law (named after the finance minister) in the 1995 budget removed taxes from profits if the money were reinvested. This led to a considerable amount of investment, especially by small, dynamic companies in the north. The most notable fall in demand is in the investment goods sector.

The final factor affecting domestic demand has been the weakness of consumer spending, prompted by a continued decline in real wages and the maintenance of the existing level of fiscal pressure. Car sales, always a good barometer, have tailed off. In May they were down 1.5 per cent, and Fiat, which accounts for more than 45 per cent of the domestic market, has of late been obliged to resort to limited temporary lay-offs.

As a whole, surveys of industrial opinion show domestic order levels have followed a steady downward trend for the past 12 months. Significantly, foreign orders have also been falling and at a much faster rate, according to Confindustria.

Exports, which have seen a spectacular boom since 1993, are no longer growing so strongly, with key markets in the EU sluggish. The trade surplus in the first quarter was at L9,531bn, down from the L12,418bn in the previous three months at the end of 1995. The strengthening of the lira has undoubtedly contributed to this, though to what extent it is too early to judge. The lira has gained 15 per cent against the D-Mark over the past 12 months and 7 per cent since the beginning of the year. Indeed, the Italian currency has strengthened to the point where leading industrialists, including Mr Cesare Romiti, the Fiat chairman, have begun to warn that it could damage exports.

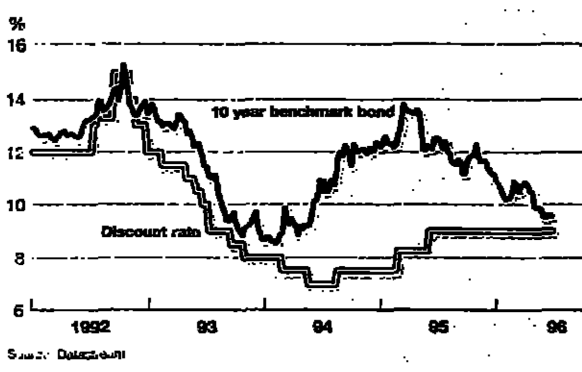
The new government is committed to bringing the lira back into the European Exchange Rate Mechanism (ERM), from which it was forcibly ejected in the September 1992 currency crisis. It will be interesting to see how the export lobby manages to influence the parity at which the lira is anchored when a decision is taken (probably in the autumn).

The economic slowdown is expected to end the three-year run of strong profitability in business and industry. Mr Antonio Fazio, governor of the Bank of Italy, in his annual economic statement at the end of May singled out profit margins as being close to the historic high touched in the 1950s. He also made clear that an upturn in fresh investment would be best encouraged by further falls in inflation. The central bank will thus retain its tight monetary policy.

Consumer prices have remained obstinately high and well above the EU norm. The Dini government was obliged in January to freeze for six months a number of tariff increases (telephones, water, electricity, motorway tolls) as a result of union pressure. But only last month did inflation look set to move below the 4 per cent barrier, and the end-year figure will be around 3.5 per cent. The target for 1997 will be an ambitious 2.5 per cent.

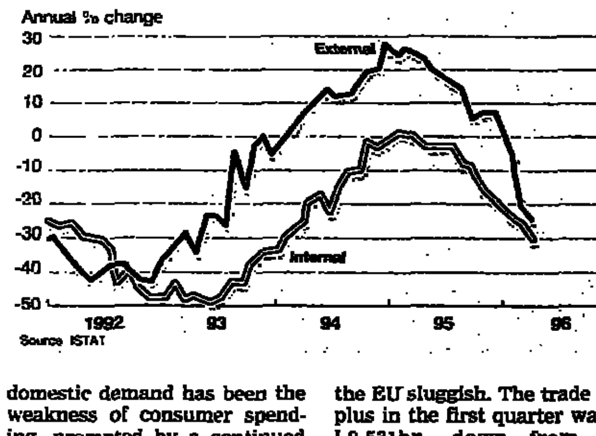
In this climate, unemployment levels will remain this year above 12 per cent, and both the government and employers will fight hard to keep wage rises below 3 per cent. Although the unions are bitter about a decline in real earnings since 1993, even a 3 per cent wage increase could affect both competitiveness and inflation.

**Interest rates**



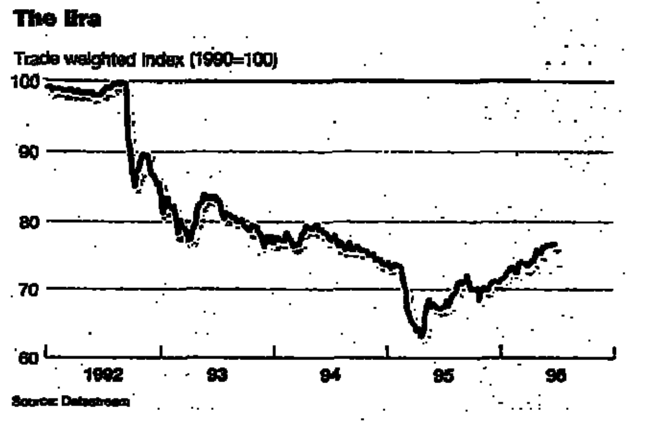

Source: Datastream

**Industrial orders**



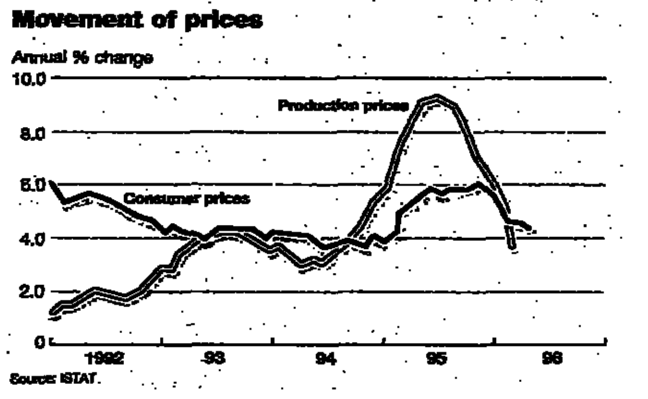

Source: ISTAT

**The lira**



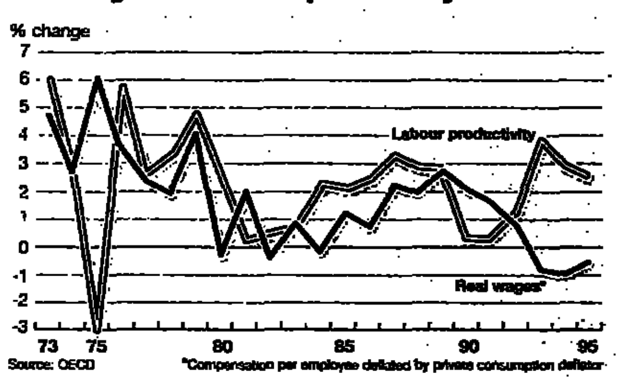

Source: Datastream

**Movement of prices**




Source: ISTAT

**Real wages and labour productivity**




Source: OECD *Compensation per employee deflated by private consumption deflator

# A paler shade of red

## The government's brave new budget strategy should help reduce the debt/GDP ratio

For once, an Italian government has avoided massaging the budget figures.

In the package of financial measures announced on June 19, the new Prodi government has deliberately left out the beneficial effects of any drop in Italy's current high interest rates. Traditionally, when obliged to find resources, governments have produced a low calculation of the cost of debt service in the hope of sparing the electorate more taxes or public spending cuts. This has meant that annual budgets invariably overshoot their targets and mid-year corrections are necessary.

Over-optimistic projections on interest rates were blamed for derailing the 1996 budget, prepared by the Dini government. It also seems some 1995 spending items were brought into this year's budget, coupled with heavier than expected outlays on health. All this combined to impose a corrective package totalling L16,000bn to hold this year's budget deficit down to its targeted 5.9 per cent of GDP. The measures are expected to fall L5,000bn short of the deficit target of L114,000bn. But without specifically saying so, the treasury expects the difference will be made up by discount rate cuts by the Bank of Italy.

The influence on the budget of the movement in interest rates is dramatic. A percentage point cut in interest rates produces a saving over 18 months of some L15,000bn. This is a huge variable, made more unpredictable over the past four years by political uncertainty. But the Prodi government hopes it can offer the prospect of sufficient stability to allow rates to fall by up to two percentage points by the end of the year.

Falling rates will not only have an impact on the deficit but also help in reducing Italy's huge stock of debt. Last year saw the debt/GDP ratio peak at 125 per cent and begin to fall back. This year the ratio should drop further to 123 per cent. If privatisation is accelerated, then more debt could be retired.

Italy's debt stock is still double the 60 per cent limit of the Maastricht convergence criteria. In mitigation, Italian officials cite the 4 per cent primary surplus (the balance of payments and receipts less debt service), which is the EU's largest.

The June mini-budget is divided into spending cuts of L11,000bn and fresh revenues of L5,000bn. The main revenue innovations are the introduction of a single 27 per cent tax on the various types of bank interest instruments and a 0.6 per cent cut to 5 per cent in the tax allowance on welfare payments by employers. Otherwise, more will be clawed from lotteries, and tax evasion will be pursued more rigorously. The spending cuts are mainly in transfers to the railways and the roads authority.

Officials believe the structural effect next year of these measures will mean a cut in budgetary needs of L20,000bn. But if the 1997 deficit is to be reduced in 1997 to come within striking distance of the convergence criterion for monetary union – 3 per cent of GDP – then next year's budget will need to find at least L30,000bn. Such an amount must come from raising fiscal pressure or cutting into welfare payments, or a combination of the two.

**Economic projections: % change**

| | Compliance with Maastricht criteria | | | Outside Maastricht criteria | | |
|---|---|---|---|---|---|---|
| | 1996 | 1997 | 1998 | 1996 | 1997 | 1998 |
| Lira/Deutschmark | 1.044 | 1.040 | 1.040 | 1.034 | 1.060 | 1.120 |
| GDP | 0.7 | 2.1 | 2.9 | 0.7 | 2.3 | 2.0 |
| Gross fixed investment | 2.0 | 3.9 | 4.9 | 1.9 | 3.5 | 2.0 |
| Export growth: goods and services | 4.6 | 6.5 | 7.0 | 4.3 | 7.1 | 8.3 |
| Import growth: goods and services | 5.4 | 7.4 | 8.0 | 5.3 | 7.7 | 5.8 |
| Total employment | -0.3 | 0.4 | 0.9 | -0.3 | 0.5 | 0.6 |
| Consumer prices | 4.0 | 2.8 | 2.0 | 4.1 | 4.3 | 5.1 |
| Avg. wage increase | 4.8 | 4.4 | 3.5 | 5.7 | 5.7 | 5.8 |
| Budget deficit as % of GDP | 5.7 | 3.4 | 2.0 | 6.0 | 4.4 | 3.6 |
| Debt/GDP ratio | 123.3 | 121.2 | 117.8 | 123.5 | 120.6 | 117.1 |

Source: Confindustria

■ **Taxation:** by Andrew Hill

# Vincenzo Visco's baptism of fire

## Few Italians face a more difficult or more thankless task than the new finance minister

Italy has had plenty of finance ministers in recent years, but few can have had a stormier reception than Mr Vincenzo Visco, a genial tax expert with the former communist PDS party.

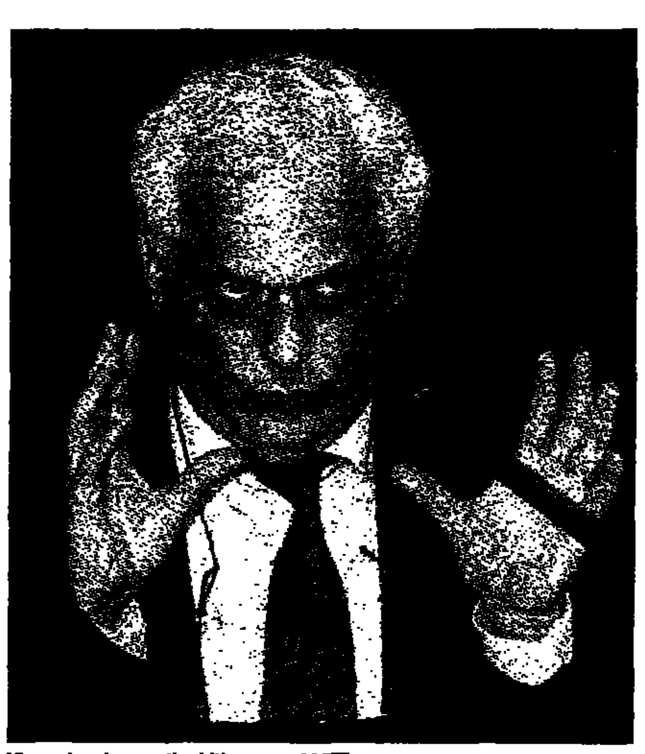
Within three weeks of his appointment by the Prodi government in May, Mr Visco was faced with a proposed "tax revolt" in Italy's prosperous north-east, while his plan for fiscal reform was held responsible for a downward lurch in the financial markets – the first hiccup in the investment community's euphoric welcome for the new centre-left administration.

Rather than a commentary on the abilities of the new minister, the clamour is a symptom of the difficulty of Mr Visco's role, and the sensitivity and importance of fiscal issues as Italy struggles towards membership of a single European currency.

Even before the centre-left's election victory it was clear that trouble was brewing for a future finance minister. The campaign kicked off, for example, with a noisy meeting in Milan of shopkeepers and the self-employed at which Mr Romano Prodi, leader of the centre-left, and Mr Silvio Berlusconi, the media magnate and leader of the right-wing electoral alliance, slugged it out over tax policy. The tone of the meeting was stridently pro-Berlusconi, with Mr Prodi struggling to get out his claim that the right's promise to "detax every aspect of the economy ... would have a disastrous effect on public finances".

In fact, any finance minister would have had to balance the same difficult equation. As the OECD's latest report on the Italian economy puts it, in recent years, "the conjunction of above-average statutory tax rates, relatively low tax yields and high deficits has shifted attention towards the need for greater efficiency in tax assessment and collection and for a more economically efficient tax structure, concentrating less on income and more on expenditure as a base".

The discontent among the dynamic smaller businesses, which together help drive the Italian economy, was also predictable and – ironically – partly the result of tougher controls imposed by Mr Visco's predecessors. Professor Roberto Artoni, a public finance expert at Milan's Bocconi University, says: "Small- and medium-sized enterprises used to avoid taxes. I have the impression that there was a changeover about a year ago: these smaller companies found themselves with lower profits at a time when the fiscal authorities were much more active."



Visco...has known the bitterness of LIFE EPA

Discontent bubbled to the surface shortly after the elections when LIFE, an independent group of mainly northern entrepreneurs, stepped up its campaign for lower taxes and less bureaucracy. LIFE members claim that as much as 70 per cent of small business income is disappearing in taxes, social security and other contributions, at local and national level, while the number of controls carried out by tax police, the ubiquitous Guardia di Finanza, is increasing.

LIFE's methods – including calls for members to withhold payment of taxes – were criticised by other industrialists, but the reasons for their discontent were not. "More than anything, they were protesting against the excessive weight of bureaucracy," says Mr Visco, citing the 2,900 different tax measures passed by Italian governments since 1980, which produce 200m documents a year for tax offices to analyse.

To combat these protests, Mr Visco is moving slowly towards radical reform of the system, in parallel with administrative reorganisation (see article below). In the first phase of reform – likely to begin with the presentation of Italy's 1997 budget in the autumn – the government is constrained by its promise not to increase fiscal pressure. The need to meet Maastricht criteria on the ratio between deficit and GDP means the government cannot afford to reduce pressure, either. This will happen only in a second phase.

Phase one involves mainly simplification: a reduction in the number of taxes and the number of tax-bands, for example, and a reweighting of the tax system away from those contributions and taxes that restrict the creation of jobs. One idea is to combine many existing contributions, paid by employers, into a single tax collected at regional-level from a wider base of taxpayers. For the government, this would have the added attraction of introducing an element of fiscal federalism into a system that is widely criticised for being too centralised, and perhaps providing a sop to LIFE and the separatist Northern League.

The first phase would also include changes in the collection of tax on investment income, which is self-declared and difficult to control. The ministry would cream off a percentage of the net gains of stockbrokers and other intermediaries at the end of each year.

**To combat protests, radical reform and administrative reorganisation are moving at a slow pace**

This part of Mr Visco's speech to a parliamentary committee upset the markets, but Mr Visco says he was misinterpreted. He insists this reform will not amount to a new capital gains tax – introduced and quickly abandoned four years ago after strong criticism – but an improvement in the efficiency of the existing system.

Phase two would see more extensive devolution of fiscal powers, a revision of income tax bands, at lower levels, and the introduction of a form of "dual income tax" for companies, along Scandinavian lines – one reduced rate on all income, and another higher rate applied only to profits that represent a return greater than interest rates. According to Mr Visco, such a system would end the distorting effect of the current system, which encourages companies to run up debts rather than increase profits.

Mr Visco's reforms, first outlined last month, were strongly attacked by his political opponents, led by Mr Berlusconi's tax reformer, the former finance minister, Mr Giulio Tremonti. They claimed that his ambitious reforms were unsupported by figures (he presented his outline plan before the government had announced its 1996 mini-budget) and would lead to greater centralisation rather than a more federal fiscal system. More cynical observers have pointed out that the question is not so much whether the government has the budget flexibility to carry out phase one, but whether Mr Visco, latest in a string of finance ministers, survives long enough to reach the tax-cutting promised land of phase two.

# 'Police' inquiry

## The inefficient and often corrupt tax collection and inspection system is under scrutiny

It takes a year to transfer Italy's 30m tax declarations onto disk, eight months to correct errors in those declarations and a full four years before the whole process of checking has been completed. Under such circumstances, it is not surprising that the Italian government's attempts to stamp out endemic tax evasion tend to lose their way.

This is not for want of personnel. The finance ministry employs 130,000 people, about half of them members of the Guardia di Finanza, the uniformed tax police. Some of the work of tax collection is contracted out to a further 15,000 people "at a high cost and with dubious success", as one senior ministry official puts it.

According to the OECD, 83,000 people are directly employed in tax administration in Italy, a higher proportion than in the US, Japan, France and the UK.

Mr Vincenzo Visco, the new finance minister, faces an uphill struggle in reforming this system. Radical solutions, such as wholesale redundancies, are ruled out. Instead, he hopes to "start the process of change" by encouraging the potential he believes is buried in tax offices across the country, and simplifying the system to eliminate duplication of effort by taxpayers and tax collectors. The finance ministry estimates that some L35,000bn is spent annually by the business community on accountancy and tax consultancy fees.

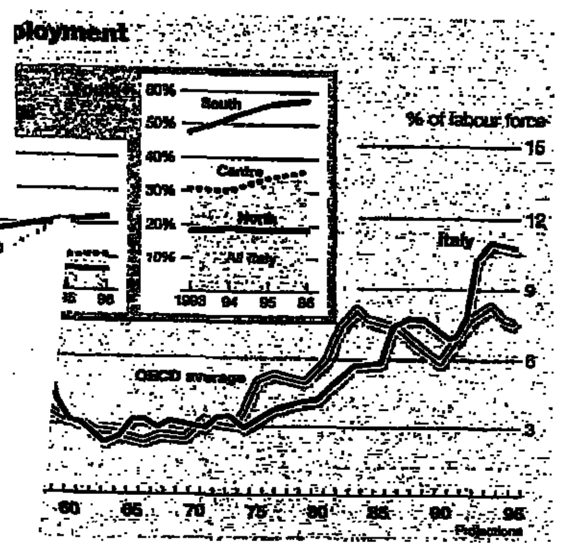
Tax collectors, known as the Fiamme Gialle (yellow flames) because of their distinctive insignia, have lost credibility in recent years. Serious corruption allegations have undermined their reputation, while criticism has increased over what is seen as petty and persistent interference by the authorities into the tax affairs of small businesses.

Industrialists accused of bribing tax police to avoid stringent tax audits have claimed the money was extorted by unscrupulous officers and many more have complained about the way the Guardia di Finanza carries out systematic raids on small companies. As one businesswoman from the prosperous north-east puts it: "The third time they came I felt like saying to them, 'look, it's not like we're peddling drugs here'."

Mr Visco foresees a gradual rebalancing of the finance ministry's employees, with fewer uniformed staff and more civilian workers. He believes decentralisation of the tax system will improve efficiency (a claim disputed by some analysts, who say it will simply increase confusion), as will a clearer quantification of the benefits of systematic controls.

As Mr Visco told parliament last month, checking up on small taxpayers is "neither fair, nor efficient", while large investigations into bigger companies "paralyse a large number of operators for months, hold up the company's activities unnecessarily, and provide scarce benefits for the fiscal authorities".

"We have to avoid useless displays of muscle. We ought to be co-ordinating the Guardia di Finanza better with the civilian tax offices," says the new minister. "The evasion problem isn't a problem of the law, it's a problem of administration."




■ **Regional disparities:** by Robert Graham

# Long and bitter division

## The gap between the prosperous north and the poorer south is one of the country's biggest problems

**The economic, social and political divide between the industrial rich, north of Italy and the south of the country is accelerating at an alarming rate.**

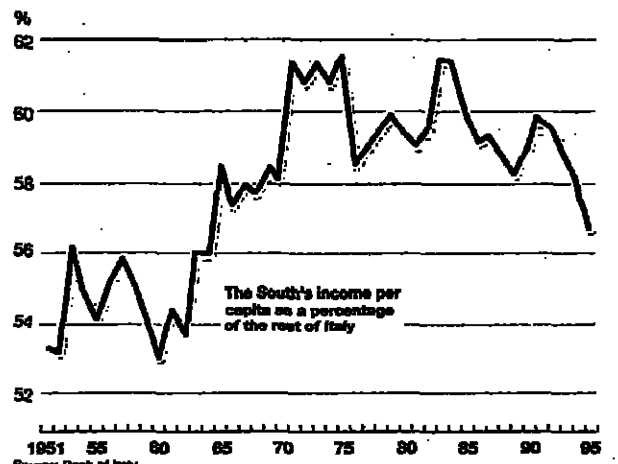
Average per capita income in the south last year was only 56 per cent that of the north. The trend has been evident since the mid-1980s but accelerated when the economy was hit by recession in 1992. In the last four years, the economy in the south has grown only 1.5 per cent, against an average 6 per cent in the rest of the country. Even more stark is the south's rate of unemployment: three times that of the north at 22 per cent.

As a result, the gap is now moving back to the levels that existed in the early 1950s when governments first began channelling huge resources to the Mezzogiorno. The south is falling behind because of a complex set of inter-acting circumstances: the state's authority is weak, undermined by corruption and organised crime; the administration is poor; the infrastructure is inadequate; credit is costly and the banks are badly run; the economy is insufficiently geared to exports to offset lower domestic demand; state transfers, the traditional motor of growth, are being reduced.

All this is happening while demographic trends between north and south are diverging sharply. Even allowing for immigration, the population in the north is declining – falling 0.4 per cent last year. Yet in the south the growth rate is positive, at 1.5 per cent.

Unless the new Prodi government addresses all these issues with determination, the north will be ever more reluctant to underwrite the south – a grievance that has already fuelled the secessionist talk of the populist Northern League.

The North/South divide




Source: Bank of Italy

**south/Sicily:** by Robert Graham

# ) work among the ruins

## ıistrative iency and ised crime are g the island's tial

on the coast of Sicily, the ruins of the Greek settlement of e are miraculously he ill-controlled prop- eculation that has so much of the island's

magnificent standing nd the mighty remains others spread out over kilometres, the site e a big tourist attrac- t it receives only a f visitors.

on the site museum halted for four years. y because of lack of thers point to a dis- nt over what to put in seum. All the best re the pride of Paler- haeological museum. unspoiled" nature of e is not just due to atic muddle or lack of contracting and build- ain heavily controlled Mafia and the allies of d crime. The payment ection money, the is difficult to avoid. In ironment, it is hard to itimate investors to risk of catering for and developing the l.

s just one example – implified and on a rel- small scale – of how failing to exploit its nd provide jobs. Tour- sector with enormous ities on the island and a that could have offset the recession g in 1992.

While the centre and north of Italy moved out of recession at the end of 1993 on the back of an export-led recovery, the Sicilian economy remains in the doldrums. Last year, growth was 1.8 per cent, well below the 3 per cent of the country as a whole. The gap with the national average was even wider for investments, which grew at 3.5 per cent – a quarter of the national level.

One of the main dynamos of the economy has been construction. But it has been heavily hit both by slack demand and by anti-corruption inquiries, which have paralysed projects. Sicilian agriculture, accounting for the bulk of Italy's citrus production, has held up well but there is still surplus labour. Overall unemployment is now running at 24 per cent of the active labour force, with the figure rising to 33 per cent in the case of women and to over 50 per cent among first time job-seekers. The position is especially serious for graduates.

> Contracting and building remain in the control of the Mafia

This is the worst employment record in the south save for Calabria; and the jobs problem is the single biggest issue on the island as elsewhere in the Mezzogiorno. This was evident in the April general elections campaign and in last month's regional elections in Sicily.

The parties that did best were those either promising the most new jobs or offering the most stable patronage. The new Sicilian government, which takes office shortly, will be formed from a coalition of centre-right parties, which won 49 of the 90 seats in the parliament.

The strongest component of this coalition is the recycled members of the defunct Christian Democrat party, which has been the dominant force on the island throughout the post-war era and has been behind so much misrule. Christian Democrats and Socialists figured prominently among the 52 deputies in the previous parliament who were investigated on counts that varied from corruption to links with the Mafia.

The regional election campaign saw extravagant promises of free trade zones, offshore financial centres and improvements to the island's creaking infrastructure. But turning such promises into reality will require significant changes in the way the island is run.

Perhaps surprisingly, the problem of job creation and economic development has little to do with lack of funds. As a result of its special autonomy status, enshrined in the 1948 constitution so as to block secession, Sicily has enjoyed exceptionally generous state transfers as well as special rights of local tax collection. The annual budget is close to L25,000bn for under 6m inhabitants.

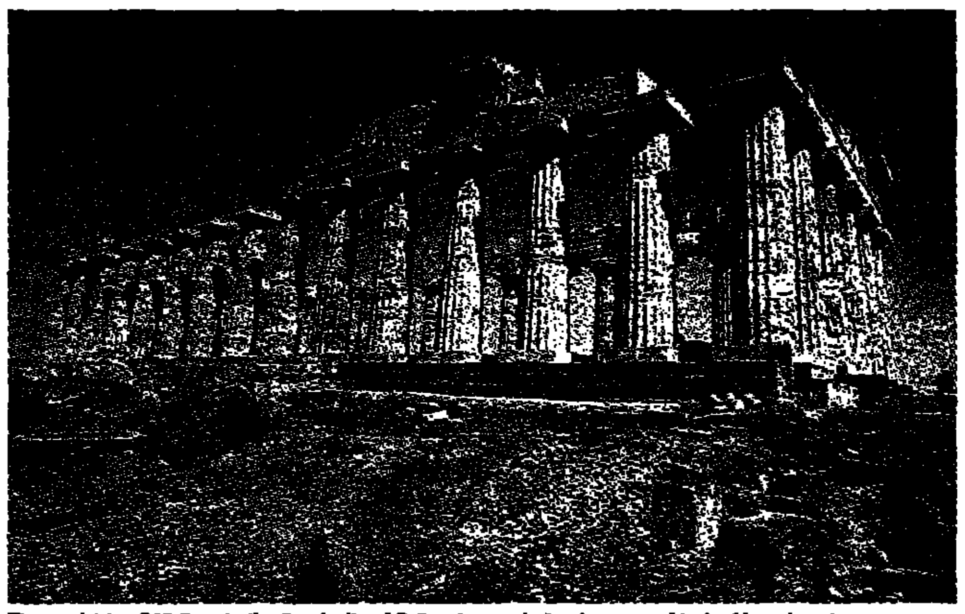
Also, like the rest of the south, Sicily has always had access to EU regional aid. Some L30,000bn of EU funds are available in the period 1994-99 for the south, and Sicily can claim its share if projects are properly presented.

However, funds have either been mis-spent or not spent at all. A brief tour of the island provides ample evidence of this: motorways are unfinished, hospitals incomplete. One of the biggest casualties has been the final stretch of the Palermo-Messina motorway – the key road link between the Sicilian capital and the mainland.

This sorry state of affairs is primarily the result of a poorly motivated and corrupt administration; and to a lesser extent of squabbles between Palermo and Rome. The regional government administration has swollen to more than 20,000 full-time employees, with many more employed on a casual basis. Jobs have been handed out as political patronage, not as a way of meeting administrative needs. The same phenomenon occurs at the municipal level.

The beginnings of change were heralded by the advent of La Rete (The Network), the reformist movement spawned from the left of the Christian Democrats and led by Mr Leoluca Orlando, now the mayor of Palermo. La Rete, along with other centre-left parties, has had some success in cleaning up the bureaucracy and trying to involve citizens more in local government. But it has faced obstruction at every turn, and the movement has lost much of its initial momentum, as evidenced by its poor showing in the regional elections.

The lead in improving Sicily's administration has to come from the well-paid deputies. (They get a basic L14m – £5,890 – a month.) Unless they set a better example, there is little encouragement for those lower down. The regional government after all does have enormous sway well beyond the annual budget. For instance, it controls, along with the Italian treasury, the island's main bank, Banco di Sicilia, and exercises direct control over Sicilcassa, the main savings bank.



The tourist trap? Visitors to the Greek site of Selinunte remain few because of lack of investment Robert Harding

In the past 18 months, the boards of both these institutions have been shaken up and former directors have been placed under investigation for corruption. Sicilcassa has just announced a 1995 loss of L1,137bn plus a doubtful loan portfolio totalling almost L5,000bn. Banco di Sicilia made a heavy loss in 1994 and is still in the red. In both cases, the blame for these losses has been placed on a disastrous, politically controlled management using political not banking criteria for loans and equity stakes.

Only with the declining grip of the old political class has the Bank of Italy been able to step in and assert a more vigorous role in bank inspection. It also took a constitutional court decision, forced by the central bank, to remove the regional government's power to authorise locally based banks to open new branches. In Sicily there are six branches for every one on the mainland. To offset such inefficiencies and extra costs in the banking system, borrowers in Sicily (and the south in general) are often paying a good two percentage points more in interest.

But the regional government is unlikely to behave better unless it is put under pressure from Rome. The advent of the new centre-left government in Rome should help on this score. The most important area is in law and order and the fight against organised crime.

Since 1992, there has been a determined effort to end the pernicious link between the politicians and Cosa Nostra, the umbrella organisation of the Sicilian Mafia. Throughout the post-war era, politicians traded Mafia protection and votes in return for organised crime being able to operate with relative impunity.

Crucial to breaking this link was public outrage over the 1992 assassinations of the two anti-Mafia magistrates – Giovanni Falcone and Paolo Borsellino (who are now honoured by street names throughout Sicily). The state was obliged to react with a more determined fight against the Mafia.

Today, the main bosses of Cosa Nostra are behind bars, thanks in good measure to the evidence of "pentiti" – Mafia members who agree to collaborate with justice under witness protection programmes.

Evidence from more than 10 leading pentiti is central to the case now in progress in Palermo against Giulio Andreotti, the former Christian Democrat premier, for being allegedly linked to the Mafia. The prosecution claims he was the Mafia's point of reference in Rome, helping to provide political cover in return for ensuring support for his powerful faction in Sicily. The proceedings have thrown an unprecedented light on organised crime in Sicily.

Whatever the outcome of the trial, in Sicily no-one deludes themselves about the continued presence of the Mafia. Organised crime remains the single biggest brake on investment. Until the Mafia threat is substantially reduced, all the other difficulties of investing in Sicily will combine to have a negative impact. Indeed, it is worth emphasising that almost all the most economically dynamic areas in the south are those where organised crime is least firmly rooted.



**e north:** by Andrew Hill

# ɘparatist call gets louder

## lection reports of the of Umberto Bossi's ern League were y exaggerated

hio Maggiore is a small town of inhabitants near Vicenza, in st Italy. A narrow, truck-clogged ks the town to the Milan-Venice da just to the south, and north to io, headquarters of Marzotto, argest clothing and textile manu-

the 1980s, the people who live in und Montecchio and Valdagno en promised a new road, easing ications for the myriad of smaller es that has sprung up in this area past two to three decades. any, the absence of such improve- a symbol of the way the prosper- has been neglected by succes- ments in spite of its strong or Italy's economic growth. wn conduit for this discon- Northern League, the separatist broke through into national pol- e late 1980s.

ing to pundits, last April's elec- uld have marked the end of the a mainstream force. ents said the league would be repeat its strong showing of two , when its candidates stood unop- its right-wing allies – Mr Silvio i's Forza Italia and the far-right Alliance. This time around, Mr Bossi, the party's abrasive leader, cised by league colleagues for the to pursue an independent track, he party against the centre-left t-wing electoral alliances.

s convinced that the principal hould have been to divide the ays Mr Marco Formentini, league f Milan. "I advised him to ally centre-left, but the result showed I was correct."

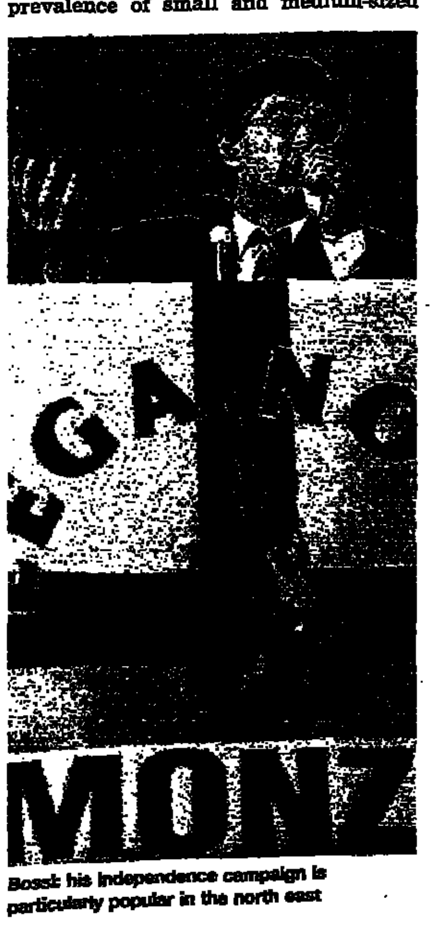
ibly, the league lost seats in par- but it still emerged as the largest rty in the north, with particularly upport in the north-east. In and Montecchio, as much as half the e voted for the league, electing of 12 senators in the Vicenza ncluding Montecchio's mayor, Mr Ceccato.

yor, Mr Ceccato swore allegiance alian flag. Yet since the election, e has stepped up its calls for the dence of an imagined northern wn as Padania, running roughly valley of the River Po to the Alps. the two flags – the Italian tri- nd the Veneto regional flag – s desk, Mr Ceccato smiles at the apparent contradiction. "The behaviour of the league is necessarily anomalous and outside the system," he admits. "As Bossi says, our mayors are on loan to the system."

Since the election, the league seems increasingly prepared to challenge that system. Mr Bossi and his cohorts still criticise "the robbers of Rome", and the layabouts of the poor south, on whom northern Italy's hard-earned taxes are spent. But instead of talking about federalism, they now call for secession.

Disillusioned by its own experience of government in 1994, the league has now established a self-styled "parliament of Padania", based in Mantua, and a shadow government (Mr Bossi prefers to call it a "sun" government) operating out of Venice. League rallies are supervised by "greenshirts" – a sort of cross between a Padania militia and a team of glorified crowd marshals.

The league's high profile conceals a more complex economic and political reality. In the elections, for example, it performed well in areas that – like that around Vicenza – are characterised by the prevalence of small and medium-sized companies, but poorly in the cities of the north. In the financial centre of Milan, for example, Mr Bossi himself was beaten into third place by Mr Berlusconi and the centre-left's candidate. In industrial Turin – still suffering from recession – the left-wing parties were strongest.




Bossi: his independence campaign is particularly popular in the north east

Most people in northern Italy are against secession. Opinion polls indicate that support for a breakaway republic reaches a peak of 27 per cent in the north-east, dropping away to 24 per cent in Lombardy and less than 20 per cent in Piedmont and Liguria.

League supporters say they will gradually convince the doubters that a break-up along the same lines as the peaceful split between the Czech and Slovak republics is the only way to get the economic autonomy they deserve. But opponents of the league see the call for an independent Padania as a clever attempt to raise the stakes, in the hope of winning more extensive autonomy for northern regions.

Others believe that northerners voted for the league because of their day-to-day frustrations about the heavy pressure of bureaucracy and tax, particularly on the business community. "The vote was a protest against poor administration," claims Mr Pietro Marzotto, chairman of the Marzotto textiles group. "Of course, the league is useful – like Forza Italia – because it makes people think."

"Secession seems to me a bit extreme," says Mrs Luciana Crocco, who runs a medium-sized plastics company with her husband in Valdagno, and says she does not directly support the league. "But I don't like paying taxes and not getting anything in return, not even a decent road."

The level of support for the league has certainly made the government think, if only because it may need the party's help in parliament if it is deserted by its supporters on the Marxist left when it comes to voting measures on privatisation, European monetary union and spending cuts. Mr Massimo Cacciari, mayor of Venice and one of the leading intellectuals of the left, has repeatedly called on the government since the election to act quickly to defuse the tension.

So far, apart from promises of improved fiscal autonomy for the regions, and a pledge to simplify some of the administrative bureaucracy for small businesses, no direct attempt has been made to mollify the league. The government may hope that support will ebb away from Mr Bossi. In recent municipal elections in Lombardy, for example, league candidates for mayor came a poor third. But the reaction of locals suggests that even if much of the separatist rhetoric can be discounted, it would be wrong to ignore the underlying concerns of northerners.

■ **Judicial trials:** by John Simkins

# The way back from Bribesville

## The new justice minister wants considered reforms to replace today's emergency climate

A pipe-smoking law professor and lover of Bach has just taken charge of one of Italy's hottest government portfolios, the justice ministry, which has been constantly embroiled in controversy during the judicial trials of Tangentopoli, or Bribesville.

Mr Giovanni Maria Flick, chosen as justice minister by Mr Romano Prodi, the prime minister of the new centre-left government, was the adviser on judicial matters to the governing Olive Tree alliance in the run-up to the elections earlier this year. Mr Flick has been quick to suggest ways of cooling the temperature by tackling problems in the overloaded judicial system that have been brought to the fore by the over-exposure of Italy's magistrates.

However, so long as prominent corruption trials or investigations continue, such as those in progress concerning Mr Silvio Berlusconi, the former prime minister, and Mr Renato Squillante, a leading member of the Rome judiciary, some of Italy's 8,000 magistrates who act on behalf of the state as prosecutors or judges – and in particular the Mani Pulite (Clean Hands) pool at Milan – will assume an undue weight in national life. "We cannot finish with the past without a strong political and social consensus and that is still lacking," says Mr Flick.

Mr Antonio Di Pietro, the former Milan magistrate who is now the public works minister, has also said that Tangentopoli is not concluded and has promised to start an anti-corruption drive in public administration.

Mr Flick sees his priority as increasing efficiency so as to allow magistrates to operate properly. They must do so, he says, free from the climate of emergency that has characterised the judicial process since Tangentopoli broke in 1992. Problems have been addressed as emergencies, he says, without treating them in context. "You can't tackle the delay in trials (which can take as long as 10 years) without looking at the organisation of the system. In the same way, the question of professional capacity cannot be addressed without looking at recruitment."

He adds that every Tangentopoli trial was symptomatic of a corrupt administrative system but that it was in the courts that these tensions surfaced, boiling over into conflict between magistrates and politicians and among magistrates themselves. The widespread use of preventive detention to encourage suspects to confess and of leaks to the media fomented this conflict.

Mr Flick has proposed specific reforms that are receiving a favourable reception among the magistrates' governing body, Consiglio Superiore della Magistratura, although the political flavour of the CSM's composition – it includes 20 magistrates elected from different magistrates' groups and 10 lay members elected by parliament – means that consensus is never guaranteed. The proposals are:

- to set up panels of judges and lawyers that would examine the backlog of an estimated 1.5m to 2.5m civil cases, where delays are worse than in criminal cases, and pronounce summary judgments;
- to extend the competence of the newly created 4,700 Giudici di Pace (Justices of the Peace) – not all of whom have been nominated – from civil to criminal cases and to give them authority to pass non-custodial sentences, such as home confinement at weekends and community service, in minor cases;
- to reorganise the geographical distribution of magistrates and remove the distinction between *pretori*, or judges who preside over minor civil and criminal cases, and judges at *tribunali* (tribunals). Except in serious cases, or at appeal, where panels of judges would preside, the new dual-purpose judge would sit on his own.

Mr Antonio Mura, chairman of the CSM's reforms commission, says that elimination of the double system of courts of *pretori* and the tribunal judges would provide a single judicial office in a circuit, with individual judges rather than panels dispensing justice in minor cases. He says this would result in much greater flexibility.

Flick: 'to finish with the past we need political consensus'

Alongside this would go a redistribution of Italy's 164 tribunals which, together with *pretori*, bear the brunt of civil and criminal cases of *primo grado* (first stage) ending in sentence. In the past, says Mr Mura, any redistribution has been merely a response to emergencies – perhaps providing another five judges to an area inundated with Mafia cases – without looking at provision throughout the country. "Some small tribunals have outlived their usefulness," he says.

A greater concentration of tribunals is proposed, based on retaining a tribunal in each of the 100 provincial capitals and providing satellite tribunals for big cities together with extra courts in areas of high crime. This would remove about 40 tribunals. Although there are strict rules governing transfer of magistrates in order to guard against interference, a redistribution within each judicial area would be permissible. In Piedmont, for example, the effect would be to halve the number of tribunals; currently the majority of its 16 tribunals have fewer than a dozen magistrates.

Mr Flick says opposition to redistribution is likely to come not so much from magistrates as from local authorities. The pace of change would be set by each area identifying its requirements.

Longer-term reforms, says Mr Flick, might include an overhaul of recruitment methods and checks on professionalism in the course of a career, as well as a more specific disciplinary code. A permanent training college for magistrates is also proposed.

These changes, however, will not affect the unified Italian judicial system, which allows magistrates to switch between operating both as pubblico ministero (PM), as the investigating and prosecuting magistrate is known, and judge. Tangentopoli has stirred concerns that this common experience builds an alliance between the two at the expense of the defence.

Many in the profession are convinced that this common culture enriches the profession, provided there is improved specialisation. Mr Flick does not advocate splitting the careers but says the distinctions between PM and judge must be reinforced so as to strengthen the judge's impartiality. The constitutional court recently made an important ruling with regard to impartiality when it directed that a judge who has ruled on pre-trial custody must not eventually sentence the defendant. This has important implications for the reorganisation of tribunals.

The CSM is preparing a report for parliament in order to show the new government that it is intent on judicial reform. Referendums on the civil responsibility of magistrates, election to the CSM, a tougher approach to recruitment and the exclusion of magistrates from extra-judicial jobs are being considered by the Constitutional Court. They serve to underline that the public is demanding changes and that Mr Flick will not find the justice ministry a quiet ride.

## One million cases

The Italian justice department's budget this year is L7,962bn, equivalent to 1.09 per cent of the total state budget.

There are 26 *distretti* or judicial regions, which in some cases correspond to public administration regions. Each judicial region has a *Corte d'appello* or appeal court. There are approximately 8,000 magistrates operating as state prosecutors or judges.

The judicial regions are divided into 164 circuits, each with a tribunal.

There are 165 seats of *pretori*, judges who preside over minor cases. In addition, there is provision for 4,700 *Giudici di Pace* or justices of the peace – of which 3,300 have so far been nominated – in 850 seats.

In civil jurisdiction, at the end of June 1995, there were 1.3m cases in progress before the *pretori*. The average length of such cases in 1994-95 was 616 days.

**Effect of pension reform on state sector borrowing requirement (L1,000bn)**

| | 1996-1998 | 1999-2005 | 1996-2005 |
|---|---|---|---|
| Lower spending | 10.5 | 70.4 | 80.9 |
| *of which* | | | |
| Cuts in seniority pensions | 9.0 | 50.4 | 59.4 |
| Restrictions on pension benefits | 1.5 | 20.0 | 21.5 |
| Higher revenues | 16.8 | 41.1 | 57.9 |
| *of which* | | | |
| New contributions from the self-employed | 9.0 | 20.1 | 29.1 |
| Higher social security payments | 7.8 | 21.0 | 28.8 |
| Revenue losses | -4.2 | -30.6 | -34.8 |
| *of which* | | | |
| Personal income tax | -2.7 | -10.9 | -13.6 |
| Incentives for private pension funds | -1.5 | -19.7 | -21.2 |
| Other | 0.5 | 3.6 | 4.1 |
| Total | 23.6 | 84.5 | 108.1 |

Source: OECD

■ **Pensions:** by John Simkins

# A story of too little reform too late?

## The state system is still a drain on resources but a further overhaul looks unlikely

When Ms Rosi Bindi, the Italian health minister, last month proposed lowering the threshold at which pensioners start paying health service contributions, she provoked a storm among trade unions and spread alarm within the governing Olive Tree alliance. The reaction underlines national sensitivity over pensions, just one year after the reform of the costly state-run system.

Generous pension provisions by international standards meant that the ratio of pension spending to gross domestic product in Italy reached 14 per cent in 1994. With demographic trends suggesting this would increase, the pensions law steered through parliament by the government of Mr Lamberto Dini was an attempt to address the system's chronic deficit: last year Istituto Nazionale della Previdenza Sociale (INPS), the national pension fund, required state transfers of L72,000bn, covering approximately a quarter of its outgoings.

The reform reflected the unions' agenda and has been criticised by Confindustria, the industrialists' organisation, for being too gradual and producing insufficient savings in the early years. INPS estimates that savings this year, in the first full year of reform, will total L7,558bn. In the period up to 2005, they will amount to slightly over L108,000bn, equivalent to 0.6 per cent of GDP per year.

Much as the new centre-left government would like to maximise savings and reduce the drain on the budget deficit, Mr Tiziano Treu, the labour minister under both the current and the Dini government, rules out an overhaul of the reform, which he says is working well, and which is due for its first comprehensive check-up in 1998. "It would be counter-productive to look at the reform again," he says. "There would be panic and social tension and that would be economically costly."

Mr Treu does, however, intend to investigate improved pension cover for part-time workers. Italy's part-time workforce is small at only 6 per cent of the total; providing incentives could not only make the workforce more flexible but also produce further savings for the state by encouraging people to put off full retirement. Mr Treu plans to introduce the incentives, which would also apply to young part-time workers, within a year.

The main thrust of the law was to shift provision away from the pay-as-you-go method, whereby pensions were paid from contributions by active workers. The fall in the working population and longer life expectancy meant that this approach was no longer viable. Instead, benefits are now linked to contributions during the working life, which are capitalised upon retirement using the five-year moving average of nominal increases in GDP.

Pensions are linked to life expectancy at the moment of retirement, which allows for a flexible retirement age between 57 and 65 for both men and women.

The reform made inroads into one of the system's costliest aspects – pensioni di anzianità or seniority pensions, which enabled workers to retire after 35 years of contributions, even if they were only in their mid-50s. The possibility of retiring after 35 years will be eliminated by 2013 and from 2008 seniority pensions will require 40 years of service, or 35 years at a minimum age of 57, with gradual convergence to those limits.

The new rules reduce privileges granted to public employees and the self-employed, while widening the contribution base and reducing scope for evading payments. But they apply fully only to new workers and transition to the new system will take until 2035. Moreover, workers with 18 years of contributions at the end of 1995 may opt out of the new rules – a concession that appears to contradict the principle of equal treatment across the generations.

Treu: 'It would be counter-productive to look at the reform again'

Mr Sergio Cofferati, general secretary of the CGIL trade union federation, says he sees no basis for concluding that the reform needs overhauling. "Things are going better than forecast," he says. "In the second half of 1995 and the first three months of this year the number of people retiring below the age of 65 who have the right to do so was lower than expected.

"This shows that people do not go spontaneously after 35 years unless they have an arduous job or their company is in difficulty. In normal conditions, they do not retire."

Calls to amend the reform, says Mr Cofferati, are premature because several of its measures have not yet been put fully into practice. In particular, he says, it is essential in the first 10 years to implement measures for complementary private schemes.

Mr Fabio Trizzino, director general of INPS, says the Italian welfare tradition has meant that the country has looked only to the state-run system as cover for its needs, providing 80 per cent of a worker's average salary in the last five years of service. "There has been no space for complementary schemes," he says. With the level of cover guaranteed by INPS set to fall complementary schemes have a bigger part to play.

However, these have not yet been launched; the private pension funds provided for by the Dini reform, with fiscal inventives, await a government decree before they can start operating. "Realistically, I believe pension funds will be in operation in spring next year," Mr Trizzino says. The financial base of these funds will be "TFR" – money set aside from individual pay packets to cover end-of-employment severance contracts. So far only chemicals workers have completed the contractual negotiations with employers to set this in motion.

Mr Trizzino says this year's INPS deficit will be in line with the provision of L74,500bn against a worse than expected macro-economic background. An extra state transfer to INPS of nearly L4,000bn, to take account of a constitutional court ruling on minimum pensions, will largely not be drawn on because of a decision to make the back-payments up to the beginning of this year in government bonds.

Mr Cofferati looks to a purge of false invalidity pensions and a drive against evasion of contributions to make further savings. But most union members are now pensioners and a renewed assault on the state-run scheme would be deeply unpopular at a time when real wages are under pressure. Any attempt to launch one was significantly absent from last month's mini-budget.

## Fraud crackdown

### There is a new drive to reduce the number of bogus claims for invalidity pensions

Italian authorities are tightening up on invalidity pension fraud after finding evidence that a substantial number of claims are false, weighing heavily on pensions expenditure.

According to Istat, the national statistics organisation, invalidity pensions from all agencies total 7m, or 34 per cent of all pensions. At a cost of L57,000bn, these invalidity pensions account for 26 per cent of all pension spending. The proportion is higher in the south where nearly half the pensions are issued for invalidity.

"In recent years, invalidity pensions have significantly increased and it is not credible that there are so many invalids," says Mr Sergio Cofferati, general secretary of CGIL, the trade union federation. "Controls are still not sufficient."

A large block of invalidity pensions, totalling 1.4m, is issued by the Ministry of Interior to low-income claimants at the cost of L16,000bn a year. The ministry has carried out cross-checks with other pension-issuing bodies and has discovered that many invalidity pension holders are claiming unlawfully from more than one authority. For example, a cross-check using 3.5m pensions of the INPS national fund revealed [illegible]700,000 people had claimed invalidity entitlements from both the Interior Ministry and INPS. Putting this to rights brought a saving of L127bn a year to the ministry and L19bn to INPS. After cross-checks with all invalidity pension issuers, the ministry achieved total savings for itself of L148bn.

The ministry also did computer checks for severe invalidity, such as blindness. Of a sample of 190,000 people who held driving licences, 103,000 had possibly made irregular claims that would need further investigation.

"If you're not blind and you declare blindness it's a crime," says Mr Emilio del Mese, director general of civil services at the ministry. "It's corruption and people either do it for the money or to get a job." (Under Italian law a proportion of state jobs must go to invalids.)

"We must be extremely severe with false invalidity claims," says Mr del Mese. Better controls need to be implemented at the USL regional health centres where certificates are obtained. Mr del Mese says that a data bank and regular checks will be put in place and that all invalidity pensions should be handled by a single institution.

■ **Incomes policy:** by John Simkins

# Strong signs of labour pains

## Unions fear that employers will not fulfil their side of the 1993 wage agreement

Wages stability has played a vital part in improving Italy's economic performance in the past few years and Mr Romano Prodi's new centre-left government is determined to keep a tight grip on inflation so that it can move closer towards meeting the criteria on European monetary union.

But, as the government gets into its stride, its relationship with trade unions, which helped to vote it into office, is showing signs of tension. Questions are being asked about the viability of the July 1993 wages accord between unions, employers and the then government. The unions have honoured the agreement but, in doing so, have seen real wages fall while companies have enjoyed strong profit margins.

According to Istat, the national statistics organisation, actual inflation last year was 5.4 per cent while the average increase in gross earnings was 4.5 per cent.

The moment of truth for the incomes policy established in 1993 is approaching. The pact directed that wage rises be kept in line with projected inflation and that any increase above it be linked to productivity and profitability at company level. But it also prescribed that, at the half-way stage of the four-year rolling agreement, wage rises should include a catch-up element to account for the difference between projected inflation in the first two years and the actual rate of inflation. The actual rate has been at least one percentage point higher each year and Confindustria, the industrialists' organisation, expects this year's figure to be 4 per cent, overshooting the projected 3.5 per cent.

The unions, which represent about 38 per cent of the country's workforce and retain a powerful voice in setting social policy, are anxious not to forgo this catch-up element. But benchmark talks between the FIOM engineering union and Federmeccanica, the sector's employers, at the half-way stage of a four-year pay accord running from June 1994, have not started smoothly.

Mr Sergio Cofferati, general secretary of CGIL, which is the largest union federation, says that the reward his members seek for two years of industrial restraint is merely that the 1993 pact be respected on all sides. "Some companies have sought to avoid the add-on element for inflation in the first two years, and in 1995 a considerable part of Italian business increased prices beyond the rate of inflation. This reduces purchasing power," he says.

"We can put up with this for a short time. But if the slow decline in inflation is halted or, worse still, the rate begins to rise, there would be enormous problems and this would put the incomes policy under discussion."

Mr Cofferati believes the second half of this year will prove decisive.

The minister of labour, Mr Tiziano Treu, who is the only minister to retain the portfolio he had in the previous government of Mr Lamberto Dini and has long experience of the union movement, argues that the 1993 accord must not only remain valid but be reinforced. "Wage moderation should continue and even be stepped up," he says.

He acknowledges, however,

Cofferati: 'a centre-left government must be attentive to workers'

that the government's decision that projected inflation for 1997 should be lowered from 3 per cent to 2.5 per cent puts pressure on the unions. "The unions are behaving responsibly and are reacting well," he says. "I don't think there will be a clash. This is very delicate but I think we shall be able to smooth things over."

In return for wage moderation, says Mr Treu, unions are seeking better control on prices, and the government has promised to consult them on the unblocking of some service tariffs, which were frozen at the beginning of this year until the end of June. Mr Cofferati says that ending the freeze on tariff rises must be done gradually to avoid a big impact on inflation.

Although the unions see the terms of the incomes policy as clear-cut, according to Confindustria there was nothing automatic about the 1993 accord and it made no reference to mechanical processes that had characterised the previous Scala Mobile system by directly linking pay increases to the rate of inflation. Confindustria says calculating the add-on element for the discrepancy between projected and actual inflation is not straightforward and that a sector's industrial prospects must be taken into account in fixing a wage rise for the period ahead.

"Quite apart from the dispute on the accord's interpretation, there is a risk that a catch-up for past inflation throws a dark shadow on future prospects for inflation. What is needed instead is a strong relaunch of the incomes policy, with a lowering of the rate of projected inflation," it says.

The difference of interpretation has been highlighted by the talks between Federmeccanica and FIOM, which has always set the benchmark on wages. FIOM is affiliated to CGIL and represents about one-quarter of the 1.5m workers in engineering sectors including steel, aerospace, shipbuilding, white goods, information technology and the automobile industry. Its demand is for an average monthly pay increase of L262,000. This comprises L165,000 to cover projected inflation over the next two years until June 1998 and L97,000 to cover the difference between projected and actual inflation from 1994-96.

Federmeccanica has contested the L97,000 claim, saying the picture has been distorted by imported inflation arising from devaluation of the lira, and raised doubts about companies' ability to afford the element of the claim covering the next two years. FIOM says that negotiations have not started well and that if they fail "the 1993 accord will be in crisis".

Public sector unions received an 8.3 per cent rise this year, which takes account of projected inflation of 6.5 per cent over the next two years and some, if not all, of the catch-up for past inflation. There is disquiet, however, over government suggestions that work practices be reorganised in the drive to make public administration more efficient.

Issues such as this, together with the need to create jobs, especially in the south, and how to reform, but not shrink, the welfare state, are to be aired at the CGIL congress in Rimini early this month. "A centre-left government must reflect its wishes for reform and be attentive to workers' problems," says Mr Cofferati. Union members, many of whom support the hardline Reconstructed Communism, will watch closely to see whether he and other union leaders convince ministers of this.

■ **Constitutional reform:** by Robert Graham

# Prodi's plan to end 'paralysis'

**The prime minister has a clear agenda for change. But implementing it will prove difficult**

Political memories can be pretty short in Italy.

The abortive attempt in February to form a broad-based government to carry out constitutional reforms has already been forgotten under the weight of successive events. But for a brief 10-day period when Mr Antonio Maccanico, a veteran servant of state, sought to form his government, it seemed possible that Italy would have an administration whose prime responsibility was a thorough shake-up of the 1948 constitution.

That such an overhaul is needed is agreed by every political party. The 1948 constitution was heavily influenced by anti-fascist sentiment and hence the desire to provide as many safeguards against a repetition of the Mussolini experience. In effect, this established a parliamentary system so encumbered with checks and balances that the result has been growing paralysis.

Reform of the poorly functioning executive and legislature has been on and off the political agenda for more than a decade. But the political will has always been lacking. Major reforms have been introduced only as a result of referendums forcing changes in legislation – the most notable being the introduction of the first-past-the-post voting system.

The Maccanico experiment failed to get off the ground less because the parties disagreed on the agenda and much more because a number of leading politicians preferred to go to the polls. Despite sharp differences of emphasis, there was a surprising degree of convergence on what needed to be done, and to that extent the February discussions were not in vain.

The big difference between now and then is that the tables have been reversed on the main players. In February, the right-wing Freedom Alliance, headed by the former premier, Mr Silvio Berlusconi, was calling the tune.

The banner of Mr Berlusconi and his main ally Mr Gianfranco Fini, the leader of the rightist National Alliance (AN), was the introduction of a "semi-presidential system in the French style". Although this proposal was never spelled out in detail, the aim was to have the head of state directly elected and to entrust him with some executive powers.

The centre-left coalition, now running the country, did not oppose the direct election of the head of state since the current practice of parliament choosing the president to serve a seven-year term was clearly unsatisfactory. (One example will suffice: President Oscar Luigi Scalfaro was elected in 1992 by a parliament that became discredited by corruption scandals and was dissolved in 1994.)

> The prime minister has remarkably little real power

However, the centre-left, led by the party of the Democratic Left (PDS), was uneasy about the proposal. The PDS sensed this marked a shift to making the election of the president the most important national ballot, so undermining the supremacy of parliament and the role of general elections. The idea also seemed tailor-made for a Berlusconi: someone with money and media influence, who could win popular support and bypass traditional structures.

The right-wing alliance would almost certainly have moved towards a semi-presidential system had it won the April elections. But with the centre-left in power, this proposal will be buried, and for the moment the new government is assessing where its priorities lie. Much depends on whether Mr Romano Prodi and his team believe they can last a full five years or choose to set their sights more modestly.

The agenda can be divided more or less in this order of priority: electoral reform; the introduction of a more federal state structure with greater power devolved to the regions; restructuring the role of the legislature to end time-consuming bi-cameralism; reinforcing the powers of the executive and allowing for the direct election of the head of state.

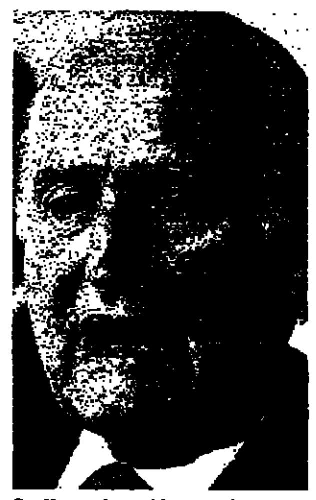
● **Electoral reform:** The 1993 electoral law is regarded as incomplete. It introduced the principle of the majority vote – the first-past-the-post system – to cover 75 per cent of the seats. But the remaining 25 per cent of seats kept the old system of proportional representation in a half-hearted move towards bipolar politics.

This led to an ironic inconsistency. The many different parties were forced to form two broad coalitions to obtain the necessary majority, but the retention of a proportional vote element encouraged the survival of the small parties – so fragmenting the coalitions.

A fully bipolar system would mean the elimination of the proportional seats. The PDS has long argued this would create a more stable government framework, especially if Italy adopted a French-style majority vote, with a second-round run-off. Such a system has already been introduced with considerable success in municipal elections. However, the Olive Tree alliance is far from unanimous on the issue, while the centre parties favour a multi-party system that retains the 25 per cent of seats elected by proportional representation.

● **Federalism:** The commitment to introduce a more federal structure for the Italian state was part of the Olive Tree's election platform. But the detail remains vague. The government is anxious to devolve greater authority to the regions, probably modelled on the special post-war statute covering Sicily.

More autonomy will be granted in fiscal matters, education and health on the principle that resources are better collected and spent if there is direct accountability at local level. But the government is unlikely to grant the kind of autonomy acquired by the Basques and Catalans in Spain. The Northern League will try to dictate the agenda, pushing for more devolution; but the league itself has yet to spell out its intentions in detail.



Scalfaro: elected by a parliament that was dissolved in 1994

● **Executive power:** The prime minister has remarkably little real power. Appointed by the president on the advice of party leaders, he cannot sack his own ministers but must rely on them to resign of their own accord or offer the resignation of the entire cabinet. He depends on an independent-minded parliament to enact legislation – the budget, for instance, traditionally takes three months to pass through both houses of parliament.

That lengthy process has led the government increasingly to resort to decrees. These have immediate effect, but must be ratified by parliament within 60 days before either lapsing or being renewed. The Prodi government inherited 93 decrees, one of which had been renewed no fewer than 21 times.

A means has to be found to give the premier more real authority. The weakness of his position was used by the right to add thunder to its argument for increasing executive power in the hands of the president. In part, the authority of the premier can come from his position as the head of the coalition that wins the elections. But changes need to be made to the constitution that risk infringing upon parliament's prerogatives.

The prime minister should also be protected from the threat of a spoiling "no confidence" motion. It could be made impossible to table such a motion without first demonstrating that an alternative government majority existed with a viable programme.

● **Direct elections to the presidency:** The value of this reform is self-evident. It would encourage competition and would give popular endorsement to the ultimate arbiter of political stability. Any change here would probably include a reduction in the term from seven to five years.

● **Ending bi-cameralism:** The chamber of deputies and Senate replicate each other's functions. This has led to serious inefficiencies: legislation is often passed from one house to another with minor changes. Proposed is a move to entrust more powers to the chamber, with a reviewing role for the senate. At the same time, there would be a reduction in the 630 chamber seats and the 315 seats in the senate. The upper chamber would reflect regional constituencies, against a more federal backdrop.

The government has yet to say how it will go about this programme. The agenda is so wide that many politicians on the right favour the establishment of a constituent assembly to tackle the issues. That would have the great advantage of disentangling constitutional reform from the business of daily government. But the centre-left fears it might not control such a body so easily as it would a joint commission of the two houses of parliament (a mechanism used for electoral reform in 1993).

In either case, any progress would require the support – if not overt, at least passive – of the opposition. That is because measures that change the constitution must be backed by two-thirds of parliament. If not, the proposals have to be put to a referendum.

■ **Media:** by Andrew Hill

# Fuzzy picture for TV

**The government's promise of reform makes the future of the television duopoly uncertain**

Depending on whom you listen to, the Italian media sector is either undergoing an enormous upheaval or fine-tuning the same old interests.

The surface activity is frenzied. Within the past 18 months, Mr Vittorio Cecchi Gori, Italy's largest film producer, has committed himself to the formation of a new force in the television sector, buying two small national channels, Telemontecarlo and Videomusic, and Mr Francesco Gaetano Caltagirone, a construction magnate, has added the Rome newspapers, *Il Messaggero* and *Il Tempo*, to his "southern pole" of print and broadcast media. What is more, this week, Mr Silvio Berlusconi should complete the flotation of Mediaset, the vehicle for Italy's three largest commercial TV channels and its biggest TV advertising group.

Before the end of the summer, according to the timetable laid down by the Italian constitutional court in 1994, parliament must consider reworking rules on media ownership. If the court's ruling is interpreted strictly, that could mean Mediaset and its rival, the state-owned RAI, each losing one of their three channels. The government has promised rapid legislation on the establishment of a new authority to regulate the telecoms and media sectors, and Mr Antonio Maccanico, minister of posts and telecommunications, has stressed that he expects action on last year's referendum, in which Italians voted to privatise the RAI.

Italy is the third largest market in Europe, after Spain and the UK, in terms of average daily viewing. But while other countries have seen viewing habits changed by the arrival of cable, satellite and pay-per-view television, the country remains wedded to terrestrial broadcasting.

"Italian commercial television grew faster than the others, because Berlusconi saw where the possibilities were before others did, but since then it has not developed and we now have a system that is purely terrestrial, purely general channels, and within it there are two networks [RAI and Mediaset], which are very similar," says Mr Gianni Locatelli, a former editor of *Il Sole 24 Ore*, the business daily, and a former director-general of the RAI.

Critics describe the duopoly as "ingessato" – the same word used for a leg put in plaster – and believe it will take much determination to crack it open. They see three possible ways of changing the sector: divestment by RAI and Mediaset; reform of the RAI; and external competition.

Most attention has been focused on the constitutional court ruling on media ownership, which would limit the proportion of national channels owned by a single group.

The uncertain regulatory outlook was a shadow over the run-up to Mediaset's flotation. But Mr Fedele Confalonieri, Mediaset's chairman, has placed his confidence in the promises of the centre-left administration not to interfere with the existing structure of the group. A number of analysts believes Mediaset will choose to sell a network – possibly Rete 4, which last year had the lowest audience ratings of the six RAI and Mediaset channels – rather than be forced to do so.

Reform of the RAI may be a more promising option. Last year, under its then chairman, Mrs Letizia Moratti, the state network moved more aggressively into the commercial arena, pitching its main variety stars against those of Mediaset, and increasing the audience share of its flagship Raiuno (RAI 1) channel from 19.9 per cent to 22.7 per cent, overtaking Mediaset's flagship, Canale 5.

Cecchi Gori: a potential 'third force' in the TV industry

But critics claimed the network had lost sight of its public service obligations. RAI's senior management has been in turmoil for most of this year, following the resignation of its director-general and an open conflict with its controlling shareholder, IRI, the state holding company. At the time of going to press, the question was whether the new government would nominate new directors, or change the rules altogether in an attempt to precipitate reform.

Mr Locatelli and others would favour a radical change, including the revival of a project that saw Raitre (RAI 3) as a national "federation" of local public broadcasters. Raidue (RAI 2) could then be refocused on the network's public service obligations, funded by the annual licence fee, and Raiuno could take the bulk of advertising revenue for a competitive general channel.

Outside competition, meanwhile, is slow in coming. Mr Rupert Murdoch, the Australian-born media magnate, did consider entering the market last year through an alliance with Mediaset. But in the end, Mr Berlusconi chose as his principal allies Kirch, the German media group, and Nethold, the vehicle for the Rupert family of South Africa, already friendly investors in Telepiù, the pay-TV network founded by Mr Berlusconi.

Although Mediaset said it would exploit industrial synergies with these new investors, the thrust of the accord was defensive: neither Mediaset nor its foreign allies wanted Mr Murdoch to establish a foothold in Italy, with access to lucrative film and, particularly, sporting rights.

Mr Murdoch did toy with the idea of returning to the Italian market with a bid for the rights to Italian soccer. But the RAI renewed its agreement with the sporting authorities after the initial deal with Mr Cecchi Gori fell through.

Although it failed, Mr Cecchi Gori's bid for the rights was a shot across the bows of Mediaset and the RAI. The film magnate would like to become a third force in Italian television, but at the moment his two channels command less than 5 per cent of the prime-time audience.

Mr Roberto Liscia, Cecchi Gori's director of strategic marketing and business development, points out that Mr Cecchi Gori owns one of Europe's biggest film libraries. "The technologies and systems are emerging, and the legislation is evolving to take account of new technology – these are factors that are certainly changing the panorama for Italian television and will open the way for more professional competition linked not only to publicity, but to content," he argues.

But it will be slow work, and many think Mr Cecchi Gori will get bored of losing money through his terrestrial channels before it bears fruit. Stet, the state-controlled telecoms group, has already hinted it may have to scale back its plans to lay an extensive cable network. Satellite operators, meanwhile, will only create a mass market in Italy if they supply more Italian-language services.

A more promising future may lie in the overlap between telecoms and media interests [see accompanying article]. But for the time being, in spite of the fuzzy picture, the message to television viewers is: do not adjust your set, normal service will be resumed as soon as possible.

**Peak evening audience: Canale 5 versus RAI 1 (% share)**

| | Spring | | Autumn | |
|---|---|---|---|---|
| | Canale 5 | RAI 1 | Canale 5 | RAI 1 |
| 1993 | 19.8 | 20.7 | 21.0 | 18.8 |
| 1994 | 21.9 | 19.0 | 22.9 | 21.2 |
| 1995 | 22.8 | 23.8 | 24.2 | 23.2 |

Source: Mediaset

**Television audience figures – % share**

| | Canale 5 | Italia 1 | Retequattro | Mediaset total | RAI 1 | RAI 2 | RAI 3 | RAI total | Others |
|---|---|---|---|---|---|---|---|---|---|
| 1990 | 16.3 | 10.7 | 8.8 | 35.8 | 22.7 | 18.8 | 8.9 | 50.4 | 13.8 |
| 1991 | 16.4 | 11.1 | 10.6 | 38.1 | 21.5 | 19.1 | 8.8 | 49.4 | 12.5 |
| 1992 | 19.6 | 11.8 | 11.7 | 43.1 | 19.0 | 18.3 | 9.0 | 46.3 | 10.6 |
| 1993 | 20.5 | 12.5 | 11.7 | 44.7 | 18.1 | 17.7 | 9.3 | 45.1 | 10.2 |
| 1994 | 20.3 | 12.6 | 10.8 | 43.7 | 19.9 | 16.4 | 10.1 | 46.4 | 9.9 |
| 1995 | 31.3 | 13.1 | 9.5 | 43.8 | 33.7 | 15.5 | 9.7 | 47.9 | 9.3 |

Source: Mediaset

# Blurred lines of distinction

**Synergy between telecoms and media raises many regulatory questions**

The longer Italy waits to set up a regulator for the telecommunications sector, the more duties the authority's staff are likely to acquire, as the overlap between telecoms, computer and media sectors gets larger.

The principle of establishing regulatory authorities for the telecoms and electricity sectors was agreed by the Italian parliament last year after months of sluggish debate in which opponents of liberalisation and privatisation from both right and left attempted to hold up the process.

Electricity already has its regulator, and experts have been named to head it. But the new parliament must approve a second law before the telecoms authority can be put in place.

According to Mr Antonio Maccanico, Italy's new telecoms minister, the authority will arrive soon and will cover both telecoms and television, and should be divided into two committees, one looking at infrastructure and the other at the services and content supplied over the network.

Speaking at a conference last month, Mr Maccanico also floated the idea of a broad forum, bringing together media and telecom companies, consumers and unions to discuss all aspects of regulation. At the same conference, Mr Giuseppe Morello, chairman of the RAI, the state television network, said national co-operation was vital: "That means developing alliances and synergies between the RAI, Mediaset [the commercial television group], Telecom Italia and Olivetti [the information technology and computer business]."

In fact, the cross-sector alliances are already forming – and future regulators may find themselves left behind.

Three strong poles seem to be emerging. One, inevitably, is that headed by Stet, the state-owned telecoms holding company that controls Telecom Italia and Telecom Italia Mobile (TIM), the main domestic operators. Stet has been talking for nearly a year now to IBM, the US computer group, about a global alliance, but a more fruitful line of negotiation may be that opened with Cable & Wireless of the UK and Veba of Germany.

Meanwhile, Stet's foreign competitors have begun to forge closer links with Italian companies. Infostrada – the telecoms joint venture between Olivetti and Bell Atlantic of the US – has a preliminary agreement with France Télécom and its allies Deutsche Telekom and Sprint of the US, to reinforce the challenge to Stet on fixed network services, while Omnitel Pronto Italia, the mobile phone operator in which Olivetti has the largest stake, is challenging TIM in the digital mobile phone sector.

Work by Telecom Italia, the state company that is poised to buy Video On Line

The third pole is forming around Mediaset, which earlier this year signed an agreement with Albacom, the joint venture between British Telecommunications and Banca Nazionale del Lavoro, in order to exploit the telecommunications potential of the commercial television network. The trio will almost certainly compete for a third mobile phone licence later this year.

Establishment of a regulator could come too late to affect important issues such as the management of alternative infrastructure and the ownership of on-line services by telecoms operators. The European Union has just opened up competition for alternative infrastructure, and both the Mediaset and Olivetti ventures are courting utilities such as the state railways and Snam, the gas subsidiary of state-controlled Eni, for use of their rival telephone networks.

As for the controversial overlap between Internet and telecoms services, Telecom Italia is poised to buy Video On Line, Italy's largest provider of on-line services, having received the go-ahead not from a specialist regulator but from the country's anti-trust authority.

Andrew Hill

■ **Municipal privatisation:** by Andrew Hill

# Councils go to the capital markets

**Local authorities increasingly fund infrastructure projects by private finance**

As Italy's new centre-left government wonders how to satisfy demands for a more federal political system, many local authorities are already pursuing independent sources of funding. A growing number of city councils is looking to the markets for new finance, either through the issue of bonds or the privatisation of local utilities.

One reason is that central government has tightened the purse-strings, forcing local councils to seek alternative ways of funding important local infrastructure projects.

Last month, for example, saw a $175m issue of dollar-denominated bonds by the city of Naples, which thus became only the second European city, after Barcelona, to tap the US bond market.

As recently as three years ago, such a move would have been considered folly. In May 1993, the Neapolitan council declared "dissesto finanziario" – a sort of civic insolvency – after discovering extravagant off-budget expenditure and hidden losses in its accounts. Now, Mr Antonio Bassolino, the city's PDS mayor, wants Naples to become "a model of openness to international capital for the rest of Italy". More practically, the cash raised will help the city replace its ageing fleet of buses.

Says Ms Jeanne-Françoise de Polignac, a director of Standard & Poor's, the credit rating agency, in Paris: "European markets are on the whole not very used to issues by local government. They already happen in Spain and France, but the issues aren't very large, and therefore in the US, where the market is much broader, there are more opportunities."

Legislation, approved in March, allows councils to issue bonds – known by the acronym BOC – that are tagged to specific projects.

Leading the pack is the town of Forlì, between Bologna and Rimini, with a L12.2bn issue to fund restructuring of the local theatre, but eight or nine other councils – including Rome, Bologna, Verona and Ancona – are said to be considering similar issues, for a total of about L1,000bn.

It will obviously take a while before the Italian municipal bond market is anything near the size of that in the US (where more than $140bn of "munis" were issued in 1995). That is partly because the legislation is new, but also because investors are bound to be more cautious about Italian councils, which have a habit of going bust, undermined by political patronage and corruption (as in the case of Naples) or by poor management.

S&P gave the Neapolitan bonds a BBB+ rating with a "positive outlook". But the agency also pointed out that this balanced an improved budgetary performance over the past three years against the city's "weak economy by Italian and international standards" and "limited revenue flexibility".

Investors at least know that there is a ready market for the dollar-denominated bonds, whereas BOCs have the disadvantage of being at the same time illiquid and long-term. By law, they must have a duration of at least five years and repay the capital in instalments over the period of the loan. From the point of view of yield, BOCs look more attractive than Italy's highly popular government bonds. But as analysts point out, that is partly a sweetener to offset the fact that they are not underwritten by the treasury.

Buying shares in privatised local utilities would provide a more liquid investment, although no small investor has yet had the opportunity to do so. Privatisation has caught the imagination of councils on the centre and left – from the Northern League in Milan to the PDS in Genoa and Turin – but the approach to privatisation differs from city to city.

Genoa was among the first to seek private-sector buyers for its assets when it sold the local milk company to Parmalat, the quoted dairy products group, in 1992. The port is also likely to be first off the mark with a public offer of shares and a stock market quotation for Amga, the local gas and water utility. The flotation is set for the end of this year and the city has already appointed Paribas as financial adviser and Mediobanca, Italy's most powerful merchant bank, as global co-ordinator of the offer.

**Around 300 local groups are now joint stock companies**

Analysts estimate at least 300 municipally owned groups, with a total value of more than L50,000bn, have begun to transform themselves into joint stock companies, the first step towards privatisation.

Milan city council, for example, approved measures to transform AEM, the local gas and electricity supplier, into a joint stock company in May, and the mayor, Mr Marco Formentini of the Northern League, declared immediately that he wanted to sell a minority stake on the stock market during 1996, with a limit of 0.5 per cent on the shares that could be held by each investor. "I want it to be a company with a diffuse share capital; I don't want it to fall into the hands of a large group," says Mr Formentini, who believes that eventually the council will also sell part of its 90 per cent stake in SEA, which manages the Milanese airports.

Turin's project for its electricity and heating utility – AEM Torino – is slightly different. The city will maintain a controlling stake, but it is seeking a single industrial partner for the company. Rome, meanwhile, is slowly carrying out the transformation of one of the largest local utilities – Acea, the water and energy group – into a joint stock company.

That is not to say the route to the private sector is entirely smooth. Powerful unions are not always happy with the prospect. Milan's privatisation of AEM is being delayed while the state-appointed supervisory body subjects the plan to additional scrutiny, and Acea's progress out of the public sector may be interrupted by last month's appointment of its chairman, Mr Chicco Testa, to the same post at Enel, the national electricity company that is Acea's only competitor in the electricity sector.

But analysts believe that if the hurdles are removed, privatisation at local level may have an even better chance of success than national sell-offs. As one banker puts it: "People are more likely to buy shares in local companies than in national utilities, because they can identify with the people who supply them with gas, or deliver milk to their doorstep."

Public offers of shares in companies owned by the local authority, and municipal bonds tied to specific projects offer residents a stake in infrastructure. The most optimistic believe local fund-raising could even help restore the civic confidence that evaporated in the late 1980s and early 1990s as corruption and mismanagement tore through local government – always assuming, of course, that this latest wave of operations is itself free from the taint of scandal.



St Peter's...some Romans want the church to take the lead *Sarah Murray*

■ **Millennial celebrations:** by Jennifer Grego

# Jubilees aren't built in a day

**Plans for the religious festival in the year 2000 have hit political and practical problems**

By the time the Pope opens the Porta Santa of St Peter's on December 24 1999 to mark the beginning of Holy Year and the "Great Jubilee", Rome should look very different.

It will need to: Mr Francesco Carducci, director of the Rome Comune (town council) tourism and events office, expects 30m visitors during the year 2000. In a normal year, the Eternal City welcomes around 13m tourists.

With only three and a half years to go, none of the proposed public works projects designed to improve the transport system has got off the ground, and Romans are beginning to think that the Jubilee is one event that the city could do without. It is, after all, they could argue, primarily a religious celebration; why not leave the organising entirely to the Vatican?

The main concern is that it will be a repeat of Italia '90, the Football World Cub six years ago, when large amounts of public money were channelled into elephantine and ill-judged building projects in the Italian host cities. Few of these are now used for the purposes for which they were built.

One such is Rome's Ostiense air terminal. In the south-west of the city, this large and modern structure with its vast car park was boycotted by taxis on opening (it did them out of their lucrative 25-kilometre each-way trip to the airport) and rapidly became a miniature ghost-town. It has now been turned into an arts centre.

Rather more serious were the ill-considered improvements to the stadiums in Italy's principal football cities, Turin, Rome and Milan. The Olympic stadium in Rome was fiercely attacked by environmentalists for its ugly new roofing, which obliterated the original view of wooded hills. In Milan, it has proved impossible to keep the pitch grassed over because of inadequate sources of light. And in Turin, running costs for the vast new edifice have proved so high that the city's two teams – Turin and Juventus – have recently been unwilling to use it at all.

In theory, things should go a great deal better this time. Two of the parties closely involved in running the Jubilee (the government and City Hall) are of the same centre-left political colour. Even so, the history of the project so far has been chequered at best.

At the outset, Mr Francesco Rutelli, Rome's mayor, and Mr Antonio Di Pietro, the public works minister and former Milan magistrate who initiated the "clean hands" anti-corruption inquiries, were locked in an acrimonious tussle over who should control the Jubilee purse-strings and direct operations. The minister, who maintained that as the government was putting up the money it should decide how it was spent, won the argument. His stance was part of a wider move to exert tighter control over big public works projects, most of which have been in abeyance since 1992 as a result of the anti-corruption campaign he helped to set up.

Financing for the Jubilee projects was provided in the 1996 budget; and in the last cabinet meeting of the Dini government a decree pledged L3,400bn. At the same time, however, the decisions on which works should have priority were left to the incoming government. This was a matter of some frustration to the Agenzia per il Giubileo, a company set up by the Rome Comune back in May 1995, to undertake feasibility studies on the projects proposed. On February 20 this year, the agency's director, Mr Luigi Zanda, indicated the 68 (out of around 600) projects considered viable. Since then, according to agency spokesman, Mr Guido Barendson, everything has been on hold, awaiting a political decision. This should finally arrive next week (July 8) when the prime minister, Mr Romano Prodi, will make the announcements in his role as head of the "Rome as Capital City" commission.

It is the Agenzia per il Giubileo that has undertaken all the serious preparatory work for the event. The agency is a limited company whose shareholders are the Rome Comune, regional authorities and the chamber of commerce, which is headed by Mr Zanda.

That Rome has received the lion's share of Jubilee funding has generated ill-feeling in the rest of the country. However, funds have been promised to cities that pilgrims are likely to visit, such as Assisi, Naples and Venice.

Mr Di Pietro, with his "clean hands" reputation, is expected to act as a guarantee of transparency in the awarding of contracts. He plans to simplify the contract-awarding process and to stamp out any residual corruption lurking in his ministry.

The hard-hit construction industry is reasonably optimistic that the minister means what he has said on the immediate re-opening of those projects halted during the anti-corruption inquiries. The industry's association, Ance, foresees a modest 0.75 per cent increase in activity this year, while Cresme, a research institute, predicts a more encouraging 2.35 per cent.

Leading public works on the jubilee agency's list include several road-widening projects – notably the road linking the city with Fiumicino airport. Some projects are already at risk, caught between the conflicting needs of archaeology and traffic viability. In some instances the municipality is going ahead by using independent funding. This is the case with the proposed new Metro line, the "C", to run from St Giovanni in Lateran to St Peter's. The mayor wants to keep control of what he regards as "normal city administration".

**Public works will include road-widening projects**

City Hall will also concern itself with essential refurbishment of parks and monuments. An imaginative gesture by the mayor has been the recruiting of the distinguished architect Mr Richard Meier to redesign the area close to the Tiber where Emperor Augustus's Mausoleum and "altare della pace" are sited – at present with traffic rushing down a main road between them. Mr Meier also figures in the Vatican programme for the Jubilee, having won, against tough international competition, the contract to build what the Vicariate calls "the church of the year 2000" in a depressed suburb on the eastern side of the city at Tor Tre Teste.

Vatican officials are experts in crowd management and are working hard at plans for the shepherding and accommodation of the pilgrim influx. But the Vatican does not contribute funds for state-run projects and limits itself to an advisory role. Archbishop Sergio Sebastiani, secretary of the Organising Committee for the Great Jubilee, is keeping very quiet.

However, the Holy See has made it clear that the Jubilee should not be just a business opportunity. As Monsignor Liberio Andreatta, brother of Mr Beniamino Andreatta, the defence minister, and head of the Vatican's Welcome Committee, says: "We don't need huge new building projects – let's just make those we have work."

When the first Jubilee was held in 1300, Pope Bonifacio decreed that Christians could celebrate the Jubilee in their home dioceses. The question that prospective pilgrims should ask themselves is: "Is my journey really necessary?"

# BUSINESS ARTS SPONSORSHIP

## Arts face a harsh set of realities

Business sponsors are increasingly keen to extract clear benefits from their spending, writes **Antony Thorncroft**

This year the Tate Gallery held a big exhibition of the paintings of Cézanne. It was a great success. The critics were respectful; the public was enthusiastic, with a record 450,000 attending the show; and the Tate was delighted with the box office revenue of more than £2.5m. The sponsor was quite pleased too.

The Cézanne was backed by Ernst & Young, the accountancy partnership. It has just assessed the return on its investment. It entertained 5,000 hand-picked guests at 44 social events in the gallery; its workforce requested over 10,000 complimentary tickets; and the media coverage mentioning Ernst & Young far exceeded the exposure from any advertising campaign. The company is delighted with the results of spending £400,000 in sponsorship and a similar amount on promotion and hospitality costs.

And there is more to come. Two years ago Ernst & Young sponsored a Picasso show at the Tate. Extra business for the partnership came from the contacts made. It sees no reason why Cézanne should not prove equally profitable. It is already planning its next big sponsorship and is torn between the proven attractions of the Tate and a new venue.

The exhibition was an example of arts sponsorship in action, displaying many of its real benefits. It gave the sponsor the opportunity to entertain existing and potential business clients in agreeable surroundings and boost employee motivation. There was an impact on a wider public too. It is a world away from traditional sponsorship where, typically, the chairman persuades the board to give £100,000 to an opera company, or an orchestra, so he can enjoy the perks of a patron.

Arts sponsorship has been one of the most successful British industries of the past two decades. When the Association for Business Sponsorship of the Arts (Absa) was founded twenty years ago, the corporate sector (mainly tobacco and oil companies, and banks) spent around £600,000 a year on supporting the arts. Last year a much wider range of companies contributed £82m.

Growth has slowed down in recent years – it is harder to justify helping the arts if a company's profits are falling and it is making workers redundant – but around sixty of the hundred largest companies in the UK help the arts in some way. As more small and medium-sized companies appreciate the advantages, the expansion will continue. Arts sponsorship has somehow managed to periodically re-invent itself.

It began as pure philanthropy, with business giving back something to the community. It developed as a PR tool, a means of improving the corporate image with customers and the community. This was especially important to the tobacco companies as their advertising channels were blocked off. It then began to be appreciated for its corporate hospitality opportunities, a cheaper, more civilised alternative to sports sponsorship, and one that appealed more to women.

This development reached its apogee with Digital which, by backing dance events throughout the country for a number of years, managed to meet personally the few thousand key contacts who might be influential in ordering its computers.

Most recently sponsorship has been seen as a marketing tool, especially for reaching specific groups of consumers, such as free-spending young professionals. Beck's, part of Scottish & Newcastle, has sponsored exhibitions by avant-garde artists such as Gilbert and George and Damien Hirst with the aim of positioning its brand as an up-market beer.

There is a misguided belief that sponsors determine the repertoire of the arts companies they back, and are deleteriously conservative and inclined to play safe. There is little or no proof of this. In fact more and more companies, from Barclays Bank with its funding for experimental drama to the £100,000 Prudential Award for the Arts which positively rewards experimentation, like to be associated with the challenge of the new. There is also greater interest in the populist arts. Digital, for example, while reducing its backing for dance, helped to bring the Cirque de Soleil to London last winter. Gala opera performances, rock concerts, and big "events" find it easy to attract a sponsor to help share some of the costs.

In some companies, such as BT, old traditions die hard: helping the arts is part of the community and charity budget, with the annual contribution linked to company profits. BT has developed a wide-ranging community arts programme, typically helping amateur theatre and local music societies. Its budget of £2m a year makes it one of the biggest sponsors in the UK. However these days evaluation is the name of the game, and the BT budget is currently being re-assessed to maximise its effectiveness.

The more contemporary, hard-nosed, approach is exemplified by Lloyds Bank, which also spends around £2m on the arts but is specific in its objectives. Most of the money goes on events with extensive television coverage, such as the Young Musician of the the Year Competition, arranged with the BBC which guarantees Lloyds specific credits. This is corporate advertising cloaked in the arts. Companies that were traditionally philanthropic, such as NatWest and TSB, are now carefully researching the benefits yielded by their largesse.

**Businesses help foot the bill for art events that range from the avant garde (left, Cirque du Soleil) to the mainstream (right, self-portrait by Paul Cézanne, from an exhibition at the National Gallery earlier this year)**

Absa is worried by the current concern of companies to treat arts sponsorship as just one tool in the marketing arsenal, along with other corporate developments, such as the rise to executive power of the committed MBA with little time for anything but a balance sheet and the transference of budgetary power to regional managements. These days few companies want to be seen as philanthropic: shareholders dominate.

The association is in the process of setting up a foundation with the aim of reaching the new generation of business leaders who tend to be profit-focused, with little time for traditional aspirations, such as improving the quality of community life. They have to be persuaded that the arts are relevant, not only for the well-being of managers and workers, but that an appreciation of the arts can actually improve efficiency by stimulating the imagination. Hence the proposed Arts at Work scheme, which is designed to bring artists into factories and offices to discuss creativity.

But a more immediate threat to the continued expansion of arts sponsorship comes from the National Lottery. The business sector is expected to provide a good percentage of the partnership funding that arts companies must gather together before they can make a successful application for lottery money.

These new demands on corporate generosity are threatening to make inroads into the budgets set aside for sponsorship. In addition the success of Mr Michael Heseltine, the deputy prime minister, in persuading business to pick up more than £100m of the cost of the Millennium Exhibition and Festival at Greenwich will inevitably put the squeeze on traditional sponsorship allocations over the next few years.

This is occuring at a time when the government has turned its back on arts sponsorship. In the past it has done its best to encourage corporate giving – another paymaster for the arts helps to spread the financial burden. A pairing scheme was designed to attract new sponsors, and to reward companies which make a long-term commitment to the arts. Since 1984 the Government has contributed £34m to the scheme and the sponsors have responded with £70m. Any company giving as little as £1,000 for the first time can qualify for a government supplement. The scheme has proved an undoubted success, but for 1996-97 the government cut its contribution for the first time – by £500,000. to £5m. This will lead to rationing among applicants.

The British style of corporate help for the arts has been taken up by many countries around the world. It is very different from the American approach, where charitable giving was traditionally motivated by tax advantages and social status. But the years of assured growth are over. It is a testimony to the effectiveness of arts sponsorship that it continued to grow during the recession. Only now is its worth being questioned.

It would be a pity if the philanthropic contribution was subsumed into the current quest for cost effectiveness. As the government moves from its current freeze on arts spending to an actual reduction, business should accept responsibility for nurturing the widest possible range of cultural activities. Given the talent available these reflect well on the UK, and improve its appeal to foreign investors and its sense of well-being.

■ **Challenges ahead:** by Simon Tait

# Backers ponder unkind cuts

## Corporate and public cynicism are clouding the prospects for sponsorship

Arts sponsorship was buoyant in 1994-95 – a year still coloured by recession – with the Association for Business Sponsorship of the Arts (Absa) recording a total spend of just under £83m, an increase of 16 per cent on 1993-94, the best year since records began six years ago.

Good news bubbled over into 1996 with adventure, flexible collaboration, large-scale planning and invigorating boldness in sponsorship schemes. Lloyds Bank made a £1m foray into the world of rock music by offering to sponsor the Knebworth Festival; BT, already a sponsor of the Northern Ballet Theatre, took on a £250,000 commitment for three years to a national dance platform for children; and Digital, once a doyen of contemporary dance sponsorship, broke new ground to sponsor the Montreal-based "Cirque du Soleil" for its Royal Albert Hall season.

The British Museum got one of its best ever corporate sponsorships from HSBC Holdings, £2m for a money gallery opening in January 1997.

There were some interesting theatrical initiatives. Barclays, an established supporter of drama through Barclays New Stages, made the first ever sponsorship link with the Arts Council for a £2.5m scheme, Barclays Stage Partners, to tour plays in the regions.

Pub theatres also got a boost when Guinness announced a link with the Royal National Theatre in a £50,000 sponsorship to generate new small-scale work in London.

But now arts sponsorship is facing challenges which have nothing to do with the quality of the projects on offer.

Lloyds' Knebworth adventure is a cautionary tale. The festival was cancelled when one top-line rock star failed to confirm – the organisers had built their programme and marketing around him.

WH Smith, once a heavy sponsor of the arts with a commitment of £500,000 a year, now makes no contribution at all. In November Smith's sponsorship manager for over a decade, Mr Michael Mackenzie, received Absa's Garrett Award (jointly with Judith Buckland of the Arundel Festival) for services to sponsorship. Ironically Smiths had made him redundant a few weeks before.

The days when a company such as Olivetti would sign a cheque for £700,000, as it did for the Royal Academy's Mantegna exhibition a few years ago, are gone. Its arts sponsorship is at an end, and it is no longer a member of Absa.

Even BT, which comes close to being beatified in the temples of arts sponsorship for its sensitive programmes, is currently reshaping its sponsorship, with the arts fighting a rearguard action to avoid wholesale cuts. Sponsorship is shifting out of the chairman's office, and often out of the London head office.

The head of the marketing department is now most likely to be the line chief for the sponsorship manager, which imposes different criteria and disciplines. Where a chairman had the clout to feel comfortable supporting the arts for the good of the arts, the marketing director is likely to ask what good it will do the company before he or she makes a commitment.

A survey by BT conducted earlier in the year showed that the arts are a long way down the priority list of concerns among customers, well below the environment, street violence, human rights and sport.

Mr David Goldesgeyme of Lloyds Bank believes the public are increasingly cynical about sponsorship. "The aspect of creating something new and good is fading," he says. "The pressure is for arts organisations to be ever more imaginative and innovative [enabling those they are approaching] to cut through the increasing clutter of sponsorship proposals. Potential sponsors are increasingly likely to [choose instead to] put their names to existing television programmes. The dividing line between advertising and sponsorship is getting hazy."

The second new element which has also become a big challenge since Absa's last encouraging report is the National Lottery.

"These figures" warns Mr Colin Tweedy, Absa's director general, "must not be taken as an indication of present sponsorship trends. Many arts and heritage organisations are finding it increasingly difficult to raise sponsorship from companies because of ever-growing demands on their budgets."


Smooth Lazarus: cast members of Roberto Calvi is Alive and Well, one pub theatre production that has benefited from Guinness's sponsorship

He points to the lottery as something to beware of, saying: "The present estimates for private sector support as partnership funding are wildly optimistic. Much work still has to be done to ensure the viability of this funding formula," he says.

The Greenwich Millennium Exhibition is proving to be a gigantic magnet for sponsorship budgets. It needs £150m in partnership funding, and the government has put considerable pressure on large companies to ensure the event happens. The businesses which have stepped forward include British Airways, the British Airports Authority, the Corporation of London, BT, BP, London Electricity, GEC, British Aerospace, BSkyB, Amec, Glaxo Wellcome, Zeneca, Granada and SmithKline Beecham, many of which have been conspicuous sponsors of the arts in the past.

Sources at the Arts Council, which received £250m in National Lottery money in the first year, privately believe that £1bn can be raised in partnership funding for capital developments to the value of £1.5bn. Mrs Virginia Bottomley, the heritage secretary, believes that in seven years £9bn can be found from the partners, which can include local authorities and trusts.

Quite apart from the Greenwich extravaganza, large London projects are knocking on private doors for around £260m to match lottery bids.

"These are absolutely enormous sums quite beyond the scope of current sponsors," Mr Tweedy says. "We're justly proud to have raised £82m in sponsorship last year, but five times that amount is needed."

■ **Volunteers:** by Antony Thorncroft

# Advice for art's sake

## Companies are often keener to provide arts bodies with counsel rather than cash

In the old days corporate support for the arts was a simple matter of handing over a cheque. Fortunately for the arts there are still many companies prepared to show their commitment in good old-fashioned cash, but there is a growing realisation that what arts companies often need just as badly is business expertise. If they can be taught to run themselves more efficiently their financial situation is certain to improve.

The idea took a practical form in the US in the 1960s as Business Volunteers for the Arts, and came to the UK in 1989 as Business in the Arts. It is organised by the Association for Business Sponsorship of the Arts (Absa) and there are now ten offices throughout the country which filter managerial help into the arts.

In all, well over 800 volunteers give a few hours each week, or fortnight, either of their own, or their company's time, to work for an arts organisation. Their professional skills in areas such as marketing, computers, finance, and PR help to make their adopted arts group better managed.

Certain companies, notably Arthur Andersen, IBM, Mercury and Royal Insurance, have enthusiastically embraced the idea and have been keen to promote it among their workforce. The participants must be volunteers: Business in the Arts is shy of offers from over-the-hill, semi-redundant managers.

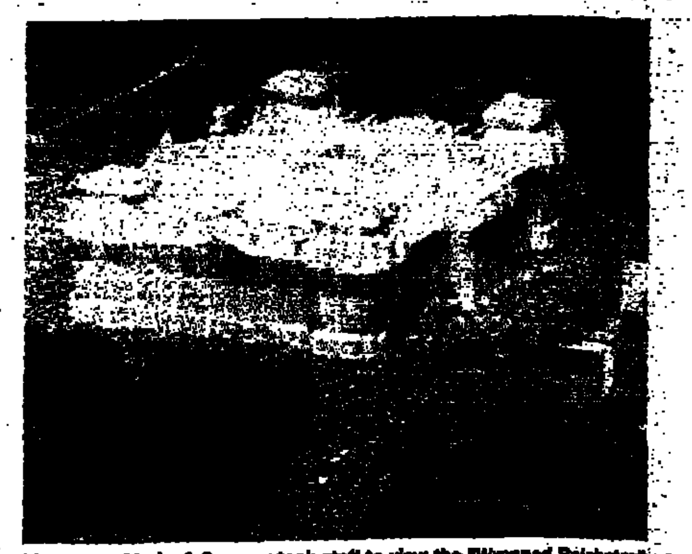
The impact has been considerable and Arthur Andersen, the accountancy partnership, has sponsored an award for "The Business in the Arts Adviser of the Year" to publicise the scheme. It has just been won by Ms Hilary Dobson, a strategic marketing and planning manager at Microsoft, who attached herself to the Movingstage Marionette Company in London which was having problems with its cash flow.

It was trying to appeal to both an adult and a children's audience, but had little idea where its customers came from. Ms Dobson quickly realised that the performances to adults were a loss leader. In contrast the juvenile audience turned over every five years and could justify the substantial investment in well-made marionettes, which, after a season's performances, could be stored away for the next generation.

Mr Andrew Darwent, at the time managing director of David Brown Hydraulics, was short-listed for the 1996 Award. He made his contribution by advising Artsway, a new venture to set up a sculpture park in the New Forest, on how to structure itself. He also helped to prepare a lottery application which resulted in a grant of £300,000.

The National Lottery has alerted many arts organisations to their need for outside managerial help. Filling in the application form for a grant is bad enough but managing what could be a large capital project for the first time is even more demanding. Business in the Arts is standing by to help.

The original scheme is expanding satisfactorily, with over 90 per cent of the attachments proving fruitful. There has been an even more enthusiastic response to a new idea to encourage cross-fertilisation between business and the arts – Board Bank, which puts young and ambitious corporate executives on the boards of arts companies to give them hands-on experience in making key decisions.


It's a wrap: Marks & Spencer took staff to view the "Wrapped Reichstag" by Christo, an artist who has given lectures to its executives

Board Bank, which is sponsored by the National Westminster Bank, is likely to have placed almost two hundred business people on the boards of arts companies around the UK within a year. This should be a useful learning process for both sides. Already the Everyman Theatre in Liverpool is happy with the scheme, which could end up being of as much value to a new generation of British managers as to the arts.

The realisation is finally getting through that while business obviously has much to offer the arts, the arts can help business, too – by broadening the imagination, awakening creative skills, and energising executives and workforces. A flourishing cultural scene has been one of the UK's few great achievements of recent decades: it must have something to teach the UK's more lacklustre business community.

> The arts can give business organisations new energy and creativity

Soon to be launched by Absa is Arts at Work which will take artists into the workplace where they can both create, and explain their creativity, to the workforce. Marks & Spencer, through its Arts & Science Forum, is very keen on this idea. It recently invited the experimental artist Christo, famous for wrapping up celebrated world sites, to lecture its executives, and it took some of them out to Berlin to observe his envelopment of the Reichstag.

In addition to providing cash and expertise, companies are also increasingly helping the arts with sponsorship in kind. This has always happened. Back in the days of the local repertory the props on stage were borrowed, with credits, from local stores. Now it has expanded greatly. The most obvious area is free, or discounted, travel – Intercity East Coast is currently supporting the north-east's Year of the Visual Arts with free tickets to the region for key contacts. Airlines, including British Airways, are helpful in transporting artists overseas.

Most big art shows look for a media sponsor to give regular coverage – Harpers & Queen greatly assisted the Hockney exhibition at the RA. The magazine ran articles about the event in six issues, as well as providing a cash input. Many arts organisations now have computerised systems in their box office thanks to generous donations of equipment from Digital and other computer manufacturers.

This is also a way in which quite small companies can help the arts – and artists. Last year's winner of the Turner Prize, sculptor Mr Antony Gormley, was helped by building materials company Ibstock, which supplied him with 50 tonnes of clay to enable him to create the 43,000 figures in his monumental work "Field for the British Isles."

Last year Absa added a Sponsorship in Kind annual award, which went to Ibstock. This year the commercial radio station Choice FM won for giving free air time to advertising for an exhibition by black and Asian artists at the Ikon Gallery in Birmingham. It narrowly defeated Harpers, and two small companies, Nightfreight GB, which acted as a courier for Hathi Productions, an Asian arts group, and Acorn Storage Centres, which gave space in Wembley to enable the artist and musician Brian Eno to create an art work for Artangel.

Companies may be more reluctant to hand over money to arts companies these days, but they are keen to involve their managers in the arts, and they are enthusiastic about letting arts groups make use of their products and services. Over time, these personal partnerships may be more useful and rewarding than hard cash.

**PROFILE** Glaxo Wellcome

# Still lives leave the shadows

Visual art used to be the poor relation in the growing family of arts sponsorship. Performance art was where business support went. Taking your clients to the opera, ballet or theatre was a more attractive prospect than standing around with them in front of rows of paintings.

If performance was made up of live arts, painting was a dead art.

Not any more, as one of the world's largest conglomerates, the pharmaceuticals giant Glaxo Wellcome made clear at the National Gallery last year.

*Spanish Still Life*, with paintings by Velazquez, Menendez and Goya, opened there to critical delight. Though never a blockbuster on the scale of a Rembrandt or Picasso exhibition it was a revelation to a knowledgeable public.

Yet according to Mr Neil MacGregor, the director of the National Gallery, it would not have happened without the gamble of the sponsor – a rare admission for an exhibition organiser, let alone one as eminent as Mr MacGregor. He was particularly delighted that a subject which was not likely to be at the top level of public consciousness had got such resounding corporate backing.

Glaxo Wellcome, no stranger to arts sponsorship as corporate members of the National's chief rivals for sponsorship money, the Royal Academy and the Tate Gallery, as well as of the National itself, made *Spanish Still Life* their biggest arts sponsorship to date with an outlay of £380,000, the full cost of the exhibition.

Glaxo's sponsorship department worked closely with the National Gallery for two years to get the project right.

Glaxo believed that wide publicity was essential and found an extra £50,000 for expensive cross-track advertising on the London Underground and in newspapers. However it gained extra publicity for itself through involvement in future exhibitions. Though entry to the National Gallery is free, there was a £4 charge to see the exhibition. It was decided that any profit would fund future projects at the gallery, with Glaxo credited as a sponsor, without charge.

"It s been a process of evolution for us," says Mr Geoffrey Potter, Glaxo's director of public affairs, "We'd wanted to do something with the National Gallery, and we were waiting for the right project to come along. At first glance, *Spanish Still Life* wasn't the obvious choice, but the sheer enthusiasm of the gallery staff made us look more closely at it."

Another factor was Glaxo's own involvement in Spain. Its presence there is growing, and its Spanish subsidiary chipped in with its own contribution to pay for the publication of the catalogue in Spanish – even though the exhibition is not going to be seen in Spain.

For the sponsor, the exhibition provided the venue for the perfect corporate salon. A theatre performance requires several hours of sitting in a large dark space watching something that may be of no great fascination, with refreshment, food and conversation waiting at the other end of a long evening. The private view, on the other hand, can last as long or as short as guests want it to, sometimes even with dinner being served in the exhibition gallery. Conversation can carry on unabated. Since exhibitions usually last several times longer than, say, an opera's eight performances, there are plenty of opportunities for corporate entertaining.

Such operations have had fundamental effects on the galleries, too. Mr Michael Wilson is the National Gallery's head of exhibitions: "When I began in the gallery 22 years ago we were only concerned with the needs of the exhibition, putting on what we wanted to show and what we thought the public would come and see, and sponsorship was not one of the considerations," he says.

"Now it is a large part of my job – the input of the sponsor is part of the planning of an exhibition. We wanted to put on this exhibition but, make no mistake, we and Glaxo mounted it together."

**Simon Tait**


The Waterseller of Seville, by Velázquez: the exhibition Spanish Still Life highlighted an unjustly neglected genre — The Wellington Museum









# The winners of awards

The following sponsors and advisers won recognition for their contribution to the arts in the FT/ABSA Awards for Business and the Arts for 1995/96. Award winners and the arts organisations or activities they sponsored are highlighted in bold type, shortlisted partnerships are in italics. The winners were announced at a ceremony at the Globe Theatre yesterday.

**Best Use of a Commission of New Art:**
**CDT Design – Tate Gallery**
*Manchester Airport – Rambert Dance Company*
*Toshiba UK – Institute of Contemporary Arts*
*United Distillers, Laindon – Essex Dance*
*Channel Four Television – Tate Gallery*
*Zeneca – North Stars Steel Orchestra*

**First Time Sponsor:**
**Lilt – Notting Hill Carnival**
*Anglo American Corporation of South Africa – Royal Academy of Arts*
*Crosby Homes (Midlands) – Symphony Hall*
*LG Electronics – Royal College of Art*

**Increasing Access to the Arts**
**Scottish Power – Royal Scottish National Orchestra and Scottish Opera**
*Bank of Scotland – Readiscovery*
*First Hydro Company – Theatr Clwyd*
*Yorkshire Electricity Group – Live Music Now (Yorkshire and Humberside)*

**International Sponsorship:**
**Roche Products – Oxford Orchestra da Camera**
*Digital PC Business Unit – Cirque du Soleil*
*Standard Bank London – Royal National Theatre*

**Long Term Development:**
**Amoco (UK) Exploration Company – Welsh National Opera**
*Brother International Europe – Halle Orchestra*
*Esso UK – The National Gallery*
*United Distillers – Lyric Theatre Hammersmith*

**Single Project:**
**Glaxo Wellcome – the National Gallery**
*AT&T (UK) – Almeida Theatre Company*

**Sponsorship by a Small Business:**
**Albert's Music Shop – Guildford International Music Festival**
*Forward Publishing – Forward Poetry Trust*
*Hi Pro UK – Africa 95*
*Judith Adams, The Art Bookshop – Ludlow Assembly Rooms*

**Sponsorship in Kind:**
**Choice FM – Ikon Gallery**
*Acorn Storage Centres – Artangel Trust*
*Harpers & Queen – Royal Academy of Arts*
*Nightfreight GB – Hathi Productions*

**Strategic Programmes:**
**British Telecommunications – Little Theatre Guild of Great Britain; Northern Ballet Theatre, Royal National Theatre**
*Bank of Ireland Group – the Belfast Festival at Queen's, The Nerve Centre, Queen's University, Strabane Hiring Fair and the Ulster Orchestra*
*Beck's (Scottish Courage) – the Artangel Trust, Tate Gallery, South London Gallery and the Edinburgh Book Festival*
*Halifax Building Society – the Huddersfield Contemporary Music Festival, Opera North, and the Phoenix Dance*

**Youth Sponsorship:**
**Bank of Ireland Group – The Nerve Centre (Foyle Film Festival)**
*Midland Bank – Arc Theatre Ensemble*
*Royal Mail London Division – Pop-Up Theatre*
*TSB Bank – National Gallery*

**The Arthur Andersen Award for the Business in the Arts Adviser of the Year**
**Hilary Dobson, strategic marketing and planning manager, Microsoft – Movingstage**
*Roslyn Courtney, personnel training and administrative officer, Royal Insurance – Replay Productions in Belfast*
*Andrew Darwent, formerly managing director, David Brown Hydraulics – Artsway, an arts development in the New Forest*
*David Dave, financial controller, Analytical & Environmental Services – museums in northern England*
*David Hunter, assistant director for business development, Office for Public Management - Serio Ensemble theatre company*
*Richard Musson, formerly marketing manager, Scottish & Newcastle Brewery – the Fotofeis International Festival of Photography in Scotland*

**The FT/CEREC Award for Sponsorship of the Arts in European Country:**
**Creditanstalt (Austria) – Austrian reading and culture through the written word**
*Akzo Nobel (Belgium) - career development of young musicians*
*Allied Domecq (UK) - Royal Shakespeare Company*
*Banco Bilbao Vizcaya (Spain) - restoration and conservation of cathedrals*
*Beck's (UK) - contemporary art of international significance*
*Digital (Israel) - Young Israeli Philharmonic, notably the integration and support of young emigre musicians from Russia*
*Foundation ELF (France) - archaeological research and discovery including wreck recovery*
*Grundkreditbank (Germany) - contemporary art*
*Sun Microsystems (Belgium) - artistic innovation*
*Toyota Ireland (Ireland) - Irish culture through the University of Limerick Irish Music Centre*

**Guinness Arts Award:**
**Polka Theatre for Children**
*Huddersfield Contemporary Music Society*
*Sculpture at Margam*

■ **FT/ABSA Awards:** by Antony Thorncroft

# Success comes in different guises

## Sponsors who won awards this year ranged from multinationals to small retailers

Winning an FT/ABSA Award matters. The case for arts sponsorship in the UK still has to be proved. There are directors, and shareholders, who think that a company's money could be spent more effectively elsewhere: on community projects, advertising, or even dividends. Receiving a prize in front of a thousand movers and shakers of British industry and the arts, and displaying one of David Taylor's glass sculptures in the boardroom, is one good answer to the critics.

There were around 450 entries for the awards this year for Sir Trevor Holdsworth and his fellow judges to sift through. The winners reflect the great range of companies who now support the arts, from Albert's Music Shop in Guildford to Glaxo Wellcome, the third largest company in the UK. When arts sponsorship began seriously in the UK twenty years ago it was dominated by the tobacco companies, the oil business, and the banks. Today most of the top hundred companies in the country give help to the arts.

Deciding on the winners in each category was difficult. There must be some element of Buggin's Turn – companies such as Manchester Airport, a generous and imaginative sponsor, cannot win every year – but in the main the judges mixed sense and sensibility.

For example Manchester was short-listed but lost out in the Best Use of a Commission of New Art to the tiny CDT Design company, which showed such a commitment to sponsorship that it invested its entire 1995 marketing budget of £20,000 to become one of the sponsors of "Art Now", a new Tate Gallery initiative to display work by contemporary artists. Among the many small design companies CDT was at the cutting edge.

One of the new trends in arts sponsorship is to use a brand rather than a corporate identity to tag a commitment. This worked very well for Lilt, a Coca Cola brand, which carried off the First Time Sponsor prize for backing the Notting Hill Carnival. As a tropically-flavoured drink Lilt is a natural supporter of the event, and its money, which boosted fees for the bands, enhanced the costumes, improved security and ensured a safe, successful, carnival. It also helped raise Lilt sales to record levels.

There is no snobbery about arts sponsorship these days. If anything, companies prefer the extremes – backing either the avant-garde or the populist – rather than the safe and secure. The judges also like enterprise, the breaking of new ground. Scottish Power won the award for Increasing Access to the Arts for widening audiences in Glasgow.

It enabled the Royal Scottish National Orchestra to commission a work from South African composer Eugene Skeef, which was performed with school children at the Tramway, and boosted ticket sales for Scottish Opera by underwriting "Soundbites", a trailer of excerpts from the company's forthcoming season, which were performed, free, in a shipyard on the Clyde.

The International Sponsorship award showed the more traditional face of sponsorship. It went to Roche Products, which financed two concerts by the Oxford Orchestra da Camera to celebrate the 50th anniversary of the death of Bartok, one in his home city of Budapest, the other in Oxford. The conductor was Paul Sacher, who had commissioned the works from Bartok. Sentiment became good business, with Roche valuably raising its profile in Hungary.

One of the problems for arts companies is that sponsors are

> Companies prefer the extremes – the avant-garde or the populist – to the safe and secure

often reluctant to make a deep commitment. They play along for three years or so and then are off to pastures new. The Long Term Development prize rewards those companies who stick with an arts company for, perhaps, decades, losing out on novelty but gaining respect for their commitment. This year Amoco, which over sixteen years has invested £1.5m. in the Welsh National Opera, enabling the company to perform a London showcase, was the deserving winner.

In contrast the involvement of Glaxo Wellcome in the arts is relatively recent. It was well pleased with the return it received from its sponsorship of the Spanish Still Life exhibition at the National Gallery, not least in the opportunities it provided for entertaining contacts. The critics also loved the show, which carried off the Single Project prize. Glaxo has confirmed its commitment by quickly returning to the National, where it is underpinning the current *Degas as a Collector* exhibition.

From the biggest to the smallest: Mr Eric Kauth runs three shops employing five people around Guildford. He invested £3,000 in sponsoring concerts at the Guildford Music Festival, and was rewarded with much publicity; a 25 per cent rise in sales – and the ABSA/FT prize for Sponsorship by a Small Business.

Another way quite small operations can help the arts is through Sponsorship in Kind. The award in this category was picked up by Choice FM, a local radio station in Birmingham, which gave over 200 commercials to promote an art show by black and Asian artists at the Ikon gallery. The message got across and many listeners visited the show.

The growth in sponsorship expenditure in recent years has mainly come from new spending by such medium-sized and small companies. But there are still big companies who have built up impressive sponsorship programmes over many years. In the past they were rewarded in the Corporate Programme category. Now, in an attempt to prove that sponsorship has a big role to play in overall corporate marketing strategies, the prize goes for the most imaginative strategic programme.

It was won by BT, which, with an annual budget of £2m is, with Lloyds Bank, the biggest sponsor of the arts in the UK. The award recognised its help over a wide spread of community and elite projects, ranging from the Little Theatre Guild to the Royal National Theatre. This public acclaim may scupper rumoured cuts in BT's arts budget.

Although arts companies are finding it harder to get sponsorship for mainstream activities it is still relatively easy to get business to back educational projects. The Youth Sponsorship prize went to the Bank of Ireland for bringing excitement, and some job opportunities, to the youth of Derry by underwriting the Foyle Film Festival, with an active workshop programme.

There are two more prizes, the Guinness Arts Award for the arts company which is reckoned to have worked most effectively with its sponsors – a prize given to the Polka Theatre for Children – and the new FT/CEREC Award, which added an international dimension by seeking the best sponsorship initiative in Europe.

It was a close run thing between Toyota's support for Irish music and culture through the work of the University of Limerick, and Creditanstalt's nurturing of Austrian heritage through the promotion of the written word. In the end the vote went to Creditanstalt.

The awards ceremony was the first big public event to be held in Shakespeare's Globe, the replica of the early 17th century theatre which has risen again by the Thames, thanks largely to the enthusiasm of sponsors. It is the most important occasion of the arts sponsorship year. It brings together the leaders of two vital activities – industry and the arts – which are slowly starting to realise how much they can contribute to each other's success, and not only in cash terms. A better-funded arts world and a more creative business world are so obviously good for the country.

■ **Education:** by Diane Summers

# A fragile partnership

## Critics think some educational sponsorship is disguised advertising

For a teacher in a state secondary school in Scotland, the idea of transporting a whole class to London to visit the National Gallery would probably, until the last year, have been out of the question: most school budgets would just not have allowed for the travel costs.

Now schools outside the M25 area can apply to a scheme called TSB First Visit for subsidised transport to the gallery. As well as help with travel costs - up to £200 per school - teachers receive a National Curriculum-linked resource pack before the visit and a video introducing the gallery's history and collection. Once in London, the party is given an hour-long tour, focusing on selected paintings pupils will already have been introduced to from their classroom work.

TSB Bank has committed over £1m to the programme and is one of a number of organisations to have made the positive decision - usually in line with focused marketing objectives - to support arts projects aimed at young people. As Ms Sally Tibbs, TSB's public relations manager, says *it is important for the bank to* communicate its message to secondary school children, for it is at this age that potential customers start to think about where they might want to open an account.

More than 5,000 children a year are benefiting from TSB First Visit, with most of them, as the name suggests, using the scheme to go to the National Gallery for the first time. The scheme is due to run until 1998 and forms just one part of a wider sponsorship project, called TSB Artsbound.

Beginning in September 1996, TSB Bank will be collaborating with the Association of British Orchestras and six major ensembles to provide musical experiences for school children, under the project title TSB First Movement. Workshop visits and subsidised tickets for concerts throughout the UK will be provided, as well as project packs and CDs for classroom use.

TSB First Act, to be launched in September 1997 in conjunction with the Royal National Theatre, will introduce students to Shakespeare's works. Again, there will be education packs, a video and touring workshops.

Pavilion Opera introduces Southall children to Italian opera

Other recent examples of business sponsorship of the arts specifically geared to young people include: DHL's backing of the annual children's festival organised by Cambridge City Council; Glaxo Wellcome's support for the Pavilion Opera Educational Trust which stages opera for schoolchildren in the London Borough of Ealing; and investment bank Lehman Brothers' backing for the Half Moon Young People's Theatre, which introduced schoolchildren in the East End of London to the behind-the-scenes working of the theatre.

How do companies decide if a youth or community education sponsorship is for them? Mr Chris Crowcroft, managing partner of Crowcroft and Partners, a consultancy which specialises in helping to match sponsors and arts organisations seeking sponsorship, says he begins by advising companies to place themselves on a spectrum of "hard" to "soft". Hard companies will want to see an easily-identifiable marketing return on their sponsorship; softer organisations, or perhaps those wanting to soften their image, may be more intent on engendering good will and recognition for their involvement.

The potential sponsor should not choose the type of sponsorship until its objectives are clear and, whatever the motivation, companies should not look for the sort of shorter-term results, perhaps for example over 18 months, that might be *appropriate* to some marketing activities, says Mr Crowcroft.

With school budgets strained by the demands of the National Curriculum for fresh classroom material, schools are constantly on the look-out for ways of funding their activities. Consequently, sponsorship of school activities is now a £300m a year business. However, this does not mean that commercial organisations have carte blanche to promote their own brand without running the risk of offending sensibilities and, ultimately, jeopardising the objectives of the sponsorship.

A recent report from the National Consumer Council, a government-funded watchdog, said there was a danger that children could be bombarded with commercial messages. It aims to encourage "a wider debate on the rising tide of US-style commercialism in our classrooms to ensure commercial sponsorship does not take *the place of state funding for* core education activities".

Businesses are still targeting school pupils with "so-called educational resources, which are biased, plastered with company logos or which actively encourage children to eat chocolate and fast foods," said the NCC.

While the watchdog was criticised by Business in the Community, the group which promotes closer links between industry and community activities, for going too far in its criticism of sponsorship, the NCC does provide some useful checklist points for schools which are considering using sponsorship material and for companies that produce it. These include:

- Is it clear who the sponsor or producer of the material is?
- Does its educational value outweigh its marketing messages?
- Is its approach to the subject balanced and up-to-date?
- Can children and teachers participate without buying the sponsor's products?

■ **International sponsorship:** by Diane Summers

# Borders still matter

## Few sponsors are prepared to battle with the practical obstacles to cross-border work

A decade ago many people in arts sponsorship circles envisaged strong growth in international projects, with companies funding arts programmes across frontiers. But although arts groups themselves would increasingly like to organise international projects, there remain very few businesses prepared to work in this way.

According to Mr Andrew McIlroy, secretary general of Cerec, the Brussels-based European network for arts-business relations, there are too many practical problems caused by national differences in language, law, advertising and publicity regulations. "We receive constant requests for sponsorship for international projects but there are no international sponsors – or very few," he says.

Some businesses are developing arts sponsorship strategies along international lines but implementation tends to remain local. For example, AT&T has always attempted to adapt projects to the local environment, with sponsorships including the Almeida theatre in the UK and contemporary dance in Holland.

Mr McIlroy points to the arts foundation set up by Banque Paribas as a model of an international sponsor which is thinking globally but acting locally. Foundation Paribas funds a range of European activities, attempting to build on local interests, support and skills. Other organisations with strong international strategies, or which are in the process of developing them include Siemens, Hugo Boss and Swift, the international financial messaging system, which has just become one of Cerec's largest business members.

One of the reasons for the difficulty in working across frontiers is the difference in sponsorship traditions that exists in different countries. Mr McIlroy sees three basic models for the justification of spending by business on the arts: the "marketing" rationale; the "philanthropic" rationale; and, most recent to come on to the scene, the "civic responsibility" rationale. Each of the models has its advantages and disadvantages and its national exponents.

The first approach, which is apparent particularly in the UK, Ireland, Holland and, to some extent, Belgium, is driven by business needs, with arts sponsorship forming part of the marketing and advertising mix. Sponsors want to be able to point to tangible results from their involvement, with, ideally, some indication of increased sales.

The advantage of this approach, says Mr McIlroy, is that the arts "can point to something solid," to justify their funding. The disadvantage can be that the potential of the relationship between project and funder is reduced to one dimension. The number of brands that are in a position to use the arts to increase sales is limited. While some niche products will successfully find

> Backers want to be able to identify practical benefits from their spend

projects, Mr McIlroy says: "The mass market is looking at broadcast sponsorship and sports sponsorship. Sports and broadcast are the sponsorship sledgehammers, whereas arts are very much a sponsorship scalpel. This holds true everywhere in Europe."

The second approach to arts sponsorship by businesses, based on a philanthropic rationale, is very much the French model, but is also to be found in Spain, Italy, Greece, Scandinavia and Germany, where public funding of the arts has generally been more secure. Mr McIlroy describes this approach as based on the reasoning that "business gives money to the arts because they are worthwhile".

The advantage of the philanthropic approach is that it is more likely to produce long-term commitment by companies to arts projects – marketing strategies, in contrast, are reviewed constantly by most organisations and returns are expected within a comparatively short time. In France and Germany, for legal and tax reasons, most corporate support for the arts is channelled through business foundations. While directors of a business usually sit on the company's foundation board, some distance is generally maintained between the business's marketing objectives and its overall arts strategy.

Mr McIlroy points to Foundation Paribas as typifying the advantages of this model. Mme Martine Tridde, secretary-general of the foundation "knows the art market in France and in Europe like the back of her hand," he says. "While being a very competent businesswoman, her job is to get the best arts projects and programmes going for Paribas over the long term."

One would be unlikely to find as thorough or as long-term an approach operating within the marketing department of most corporations, he believes, although there are notable exceptions, including sponsors in the UK such as Marks & Spencer, and Midland Bank.

One weakness of the philanthropic approach is that the arts are finding it increasingly difficult to compete with other worthy causes, including health, education and the environment, as government funding for these areas comes under pressure.

The third model for arts sponsorship that has developed over the last five years or so is based on the argument that companies have a civic responsibility to fund community activities. The motivation is enlightened self-interest: businesses may benefit not only directly by linking up with arts projects but, as Mr McIlroy explains: "There is also a longer-term interest that business has in using the arts to secure the vibrancy, the creativity, and the solidity of local environments." Some examples of this approach are to be found in the UK, in particular, where organisations such as Business in the Community, the business-led body which encourages social responsibility, has long been active.

Finally, while the pairing scheme (see article on right) operated by the UK's Association for Business Sponsorship of the Arts is seen as a model worldwide, the US, which is currently looking at starting its own programme, originated the idea of business volunteers working within arts organisations.

More than 3,000 arts groups in the US benefit each year from free management consulting services provided by nearly 2,000 volunteer business executives. Not only do projects make use of professional expertise, volunteers themselves may increase their own experience, expertise and leadership skills for the direct benefit of their employer.

■ **The Pairing Scheme:** by Simon Tait

# The budget is pared down

## Changes to matched funding rules have been well-received – spending cuts have not

"Plural funding" in arts financing was introduced as a concept in the early 80s, in a formal recognition that sponsorship was no longer the icing on the cake of cultural funding but part of the mixture. It melded private and public finance for schemes and projects and took on the dignity of official recognition in 1984 when Lord Gowrie – not then chairman of the Arts Council of England as he is now but arts minister – announced what seemed to be one of the least dramatic possibilities for innovation in his reach: the Business Sponsorship Incentive Scheme (BSIS).

In April last year the Association for Business Sponsorship of the Arts (Absa), which was tasked with administering the BSIS, introduced the press to a golden pear. It was a pun, a little lightness for a new manifestation of the dreary old BSIS, which had become the Pairing Scheme – the logo of which is a gilded pear – but was essentially the same as the innovation introduced by Lord Gowrie to "challenge fund" certain arts sponsorships with money from a special government fund: "If you can raise this much" the scheme was saying, "we'll top it up with that much more."

Uninspiring as the scheme's name might have been, there was a degree of distrust at the start that this might be a way of handing over statutory funding responsibility to the private sector. Many thought the government should be coughing up both "that much" and "this much". But in reality the BSIS has been a quiet phenomenon, bringing in over £100m of new money to the arts. To date there have been 5,736 applications, 4,619 of which have been approved It was based on a simple formula to encourage new sponsors of the arts by matching pound-for-pound their support of between £1,000 and £25,000. The projects of those already sponsoring could get extra money from the scheme if the sponsorship was increased by at least £4,000 in the second or third sponsorship, with the BSIS adding £1 for every £4 of this new money.

In 1989 the Policy Studies Institute's periodic review Cultural Trends cited the BSIS, along with "the enabling factor of favourable economic conditions" as the main reason why "the growth of business sponsorship of the arts has been seen by many commentators as the outstanding feature of arts funding in the 1980s". After six years the money injected into the arts through the scheme amounted to more than £37m, and gradually the government's input to the fund has been increased so that the second six years saw that figure almost trebled. Last November, however, it seemed that the government had lost faith when the Heritage Secretary, Mrs Virginia Bottomley, announced that from a peak of £5.6m in 1995-96, her budget's commitment to the Pairing Scheme would be reduced by £500,000 in 1996-97, a ten per cent cut, and by another half a million pounds in 1997-98, bringing it down to the level of 1993-94 when her predecessor, Mr Peter Brooke, had committed £4.5m to matching sponsorships.

The cut was all part of blanket reductions in National heritage expenditure which has gone down from over £1bn last year to under £940m this year, the arts' share of the cut being £5m with a similar reduction promised for next year.

Then in January this year Mrs Bottomley announced a shake-up of the system, broadening it with the aim of encouraging long-term commitments and more generous rewards for arts organisations attracting business support. With immediate effect from the beginning of February, the maximum award was more than doubled from £35,000 to £75,000, the annual limit an arts organisation can have was raised from £50,000 to £75,000, and the limit of the number of awards any organisation can receive any year, hitherto two, was removed altogether. Ratios for partnership sponsorship money, which had been fixed to match the sponsorship amount and no more, have also been made more flexible. Until that point only first-time sponsorships could qualify for 100 per cent matching, but this can now be applied to other schemes.

"My primary aim," Mrs Bottomley said, "is to promote longer-term sponsorships that will enable arts organisations up and down the country to plan more rationally and confidently. I also want to focus the scheme explicitly towards sponsorships that generate easier access to the arts for bigger and wider audiences."

She continued: "The arts in Britain now have access to more money than ever before thanks to a healthy plural funding approach. The partnership between central government's grant to the Arts Council, local authority funding, box office receipts and, of course, the National Lottery is heralding a new era for the arts in this country. But it is now important to take stock and develop a more strategic approach."

The changes have had an almost immediate effect, says Mr David Wynne who administers the scheme for Absa: "The cut was a grievous blow, but the new rules have been received enthusiastically by both arts organisations and sponsors."

Sedgwick European Risk Services, for instance, was persuaded to commit to the City of London Sinfonia for three years, so was Channel 1, for the BOC Covent Garden Festival. The Pairing Scheme, according to Mr Wynne "now encourages sponsors to sign for programmes of three years, and even finance directors, who don't usually like to commit more than a year in advance, are responding favourably."

Pas de deux: the matching programme has steered the private sector into boosting arts funding Bill Cooper

Virginia Bottomley has made blanket cuts to her department's spending



PROFILE LG Electronics

# Design-minded partners

According to Mr John Koo, president of LG Electronics, the sponsorship which has brought the company to the Shakespeare Globe for the ABSA Awards in its first venture in arts sponsorship was merely part of the quest for design excellence.

LG – since last year the formal title of the company once known as Lucky Goldstar – was nominated for its support of the Royal College of Art's large exhibition *Design of the Times* which celebrated the college's centenary with a show which charted the institution's influence on all manner of design in the last hundred years.

"We were delighted to be associated with such a long story of design excellence" Mr Koo says. "It is undoubtedly the key design centre in Europe as far as we are concerned." The progress of the international corporation, which has recently set its foot firmly on British soil by opening a new Tyne and Wear factory turning out a distinctly unaesthetic-sounding line in microwave ovens, to an ever-closer association with the high temples of design such as the RCA, has been astonishing.

LG is still a family concern even though projected turnover this year is £62bn, 13 per cent of South Korea's entire gross national product.

Mr Koo, 50, comes from traditional landowning stock. His grandfather was content to farm his vast ranges of paddy fields and watch his six sons grow into their estate.

Following the liberation of South Korea by the Americans in 1945 the country began a phase of vigorous

A sculpture in clay and aggregates by Felicity Aylieff, a graduate of the Royal College of Art

commercial expansion.

The eldest son took his patrimony and set up a textile wholesaling business, bringing in some of his brothers to help. He called it Lucky, watched his markets carefully, and diversified into cosmetics.

Business was good, but there were niggles from customers that the hand-cream bottles were difficult to open. Lucky began to experiment with extruded plastic and found a material with infinite possibilities, on which it built a significant chemicals business. All the brothers were involved, and John Koo is the son of the fourth.

"My uncles just looked for the things that people wanted, and found ways of producing them," says Koo, whose education included a four-year business degree course at Princeton University. "They knew that there was no future for the country's economy in importing everything, so they started manufacturing."

In 1958 Lucky created GoldStar to make electrical appliances and a year later built Korea's first home-produced transistor radios followed by telephones. Then it developed the first Korean fridges and television sets, and so on, until in 1968 GoldStar opened a brand office in New York.

In the 1970s GoldStar established its first private research and development facility in Seoul, which proved to be the dynamo of its global growth. Mr Koo joined the company and was groomed for top management with five year stints in the crossroads markets of Hong Kong and Singapore.

"In the 1960s we knew we had to upgrade our design operation." Mr Koo says. "It was too focused on domestic capability, and we had to establish a greater degree of co-operation with Western designers to inspire overseas operations." Designers were brought to Seoul and contact was made with centres of design excellence in the West.

"When my people said we should have a closer relationship with the RCA, I thought we were going into record production in New York," says Mr Koo. LG now endows bursaries at the college and follows developments there closely. "There is a unique mixture of a knowledge of the history of design and an understanding of future potential which we find very exciting" says Mr Koo.

Simon Tait